



Eimskipafélag Íslands hf.
Consolidated Financial Statements
for the year ended 31 December 2017
EUR

Eimskipafélag Íslands hf.
Korngardar 2
104 Reykjavík
Iceland

Reg. no. 690409-0460

This page has been left blank intentionally

Contents

Endorsement and Statement by the Board of Directors and the CEO	4
Independent Auditors' Report	6
Consolidated Income Statement	9
Consolidated Statement of Comprehensive Income	10
Consolidated Statement of Financial Position	11
Consolidated Statement of Changes in Equity	12
Consolidated Statement of Cash Flows	13
Notes to the Consolidated Financial Statements	14
Appendices:	
Quarterly Statements	36
Corporate Governance Statement	37
Non-Financial Reporting	43

Endorsement and Statement by the Board of Directors and the CEO

Operations and significant matters in 2017

Eimskip is a leading transportation company in the North Atlantic with connections to international markets and is specialized in worldwide freight forwarding services, with the vision of providing excellence in transportation solutions and services. Eimskip specializes in shipping, logistics and supply chain management and offers its customers solutions on land, sea and air with special emphasis on the handling and storing of any type of temperature-controlled cargo, frozen or chilled, and dry cargo.

The Annual General Meeting of Eimskip approved on 23 March 2017 a dividend payment to shareholders of ISK 6.80 per share. The total dividend payment amounted to ISK 1,269.1 million or EUR 10.6 million. The payment date was 19 April 2017.

In January 2017, Eimskip acquired the forwarding company Mareco N.V. Mareco focuses on logistics services, especially export to the West, Central and South Africa from all over the world. In April 2017, Eimskip acquired a 51% share in the container trading company CSI Group LLC. In June 2017, Eimskip acquired the Danish forwarding company SHIP-LOG A/S.

Net earnings for the year 2017 amounted to EUR 16.8 million (2016: EUR 21.9 million) according to the Consolidated Income Statement. Total equity at 31 December 2017 amounted to EUR 244.6 million (2016: EUR 243.8 million) according to the Statement of Financial Position.

The Board of Directors proposes a dividend payment to shareholders in 2018 in the amount of ISK 6.80 per share. The proposed dividend payment is ISK 1,269.1 million, or EUR 10.2 million, which represents 61% of net earnings for the year 2017.

Corporate Governance

Eimskip's management is of the opinion that practicing good Corporate Governance is vital for Eimskip and is in the best interests of the shareholders, employees and other stakeholders.

The framework for Corporate Governance practices within Eimskip consists of the provisions of law, the parent company's Articles of Association, Rules for Issuers of Financial Instruments listed at Nasdaq Iceland and the 5th edition of Corporate Governance Guidelines issued by the Iceland Chamber of Commerce, SA - Business Iceland and Nasdaq Iceland. Corporate Governance practices are designed to ensure open and transparent relationship between the Company's management, its Board of Directors, its shareholders and other stakeholders. The Corporate Governance in Eimskip is also designed to ensure sound and effective control of the Company's affairs and a high level of business ethics. Further information is provided in the Corporate Governance Statement which is an appendix to these Financial Statements.

The Company complies with Article 63 of Act no. 2/1995 on Limited Liability Companies (Company Act), as the Company's Board of Directors currently consists of three males and two females.

Non-Financial Reporting

The Company is defined as a large Public Interest Entity according to the Icelandic Financial Statement Act. In June 2016, changes were made to the Act that stated that these companies should disclose as an attachment to the Endorsement of the Board of Directors and CEO relevant and useful information on their policies, main risks and outcomes relating to environmental, social and employee matters, their human rights policy and how they counteract corruption and bribery, in addition to a short description of the Company's business model. This new disclosure requirement is derived from a European directive that is effective as from 1 January 2017 for the member states of the EU. Further information is provided in the Non-Financial Reporting which is an appendix to these Financial Statements.

Share capital and articles of association

The nominal value of the Company's issued share capital amounts to ISK 200.0 million of which the Company held treasury shares of ISK 13.4 million at year-end 2017 which is equal to 6.68% of issued shares. The amount of treasury shares remained unchanged from the year end 2016. The share capital is divided into shares of ISK 1 each with equal rights within a single class of shares listed on the Icelandic Stock Exchange (Nasdaq Iceland). Companies can acquire and hold up to 10% of the nominal value of the their shares according to the Icelandic Company's Act.

The Company's Board of Directors consists of five Directors and two alternate Directors, all elected at the Annual General Meeting. Those who intend to run for the Board of Directors shall notify the Board of Directors of their candidacy at least five days before a shareholders' meeting. The Company's articles of association may only be amended by a lawful shareholders' meeting, as long as the proposal for the amendment is described in the invitation to the meeting. The decision to amend the articles of association will only be valid if it is approved by 2/3 of the votes and approved by shareholders controlling at least 2/3 of the votes represented at the shareholders' meeting.

Endorsement and Statement by the Board of Directors and the CEO

Further information on matters related to the share capital is disclosed in note 14. Additional information on shareholders is provided on the Company's website, www.eimskip.is/investors. The number of shareholders at year-end 2017 was 712 which was a decrease of 94 from the beginning of year.

The Company's twelve largest shareholders at the year-end are the following:

Shareholder:	2017		2016	
	Number of shares	Shares in %	Number of shares	Shares in %
1. Yucaipa American Alliance Fund II, LP.*	30,504,030	16.34%	30,504,030	16.34%
2. Lífeyrissjóður verzlunarmanna	27,785,070	14.89%	27,485,070	14.73%
3. Yucaipa American Alliance (Parallel), Fund II LP.*	20,095,970	10.77%	20,095,970	10.77%
4. Gildi - lífeyrissjóður	18,846,139	10.10%	18,846,139	10.10%
5. Lífeyrissjóður starfsmanna ríkisins A-deild**	12,070,000	6.47%	11,200,000	6.00%
6. Eaton Vance Management***	11,147,295	5.97%	6,075,781	3.26%
7. Stapi lífeyrissjóður	9,292,555	4.98%	10,092,555	5.41%
8. Birta lífeyrissjóður	7,989,966	4.28%	2,060,799	1.10%
9. Lífeyrissjóður starfsmanna ríkisins B-deild**	4,165,000	2.23%	4,080,000	2.19%
10. Almenni lífeyrissjóðurinn	3,611,558	1.94%	2,911,558	1.56%
11. The Wellington Trust Company	3,293,102	1.76%	0	0.00%
12. Festa - lífeyrissjóður	3,251,374	1.74%	2,937,005	1.57%
Other shareholders	34,587,171	18.53%	50,350,323	26.98%
Total outstanding shares	186,639,230	100.00%	186,639,230	100.00%
Treasury shares	13,360,770		13,360,770	
Total issued shares	200,000,000		200,000,000	

*) Yucaipa American Alliance funds with total shareholding of 27.1%

**) Lífeyrissjóður starfsmanna ríkisins with total shareholding of 8.7%

***) The shareholders are Global Opportunities Portfolio, Global Macro Portfolio, Global Macro Absolute Return Advantage Portfolio, Global Macro Capital Opportunities Portfolio, JNL/Eaton Vance Global Macro Absolute Return Advantage Fund and Pacific: IGPACSEL/Pacific Select Fund Global Absolute Return Fund.

Statement by the Board of Directors and the CEO

The Consolidated Financial Statements of Eimskipafélag Íslands hf. and its subsidiaries (together referred to as "Eimskip" or the "Group") are prepared and presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements for listed Icelandic companies. The Financial Statements are presented in thousands of EUR.

According to the best of our knowledge, it is our opinion that these annual Consolidated Financial Statements give a true and fair view of the consolidated financial performance of Eimskip for the year 2017, its assets, liabilities and consolidated financial position as at 31 December 2017 and its consolidated cash flows for the year 2017.

Further, in our opinion the Consolidated Financial Statements and the Endorsement by the Board of Directors and the CEO give a fair view of the development and performance of Eimskip's operations and its position and describe the principal risks and uncertainties faced by Eimskip.

The Board of Directors and the CEO have today discussed the Consolidated Financial Statements of Eimskipafélag Íslands hf. for the year 2017 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the Consolidated Financial Statements will be approved at the Annual General Meeting of Eimskipafélag Íslands hf.

Reykjavík, 22 February 2018

Board of Directors:

Richard Winston Mark d'Abo, Chairman

Víglundur Thorsteinsson

Helga Melkorka Óttarsdóttir

Hrund Rudolfsdóttir

Lárus L. Blöndal

CEO:

Gylfi Sigfússon

Independent Auditors' Report

To the Board of Directors and Shareholders of Eimskipafélag Íslands hf.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the Consolidated Financial Statements of Eimskipafélag Íslands hf. (the Group), which comprise the Consolidated Statement of Financial Position as at 31 December 2017, and the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional Icelandic disclosure requirements for listed companies in Iceland.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of ethics for Icelandic auditors, which are based on the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code). We have also fulfilled other ethical requirements of that rules. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters

How the matter was addressed in our audit

Revenue Recognition

Revenue recognition represents a risk due to the high volume of revenue transactions that exist through the year, and the transactions are based on several types of logistics contracts with individually negotiated terms.

For revenue streams an area of focus is the risk that revenue may be inaccurately recorded and/or recorded in the incorrect period. Therefore, revenue recognition is a key audit matter.

The Group's revenue recognition accounting policy is described in note 25.k to the Consolidated Financial Statements.

We have performed the following procedures to address this risk:

- We assessed the adequacy of the implementation, function and monitoring of controls, both manual and IT controls related to revenue recognition.
- We performed detailed cut-off testing for a sample of transactions around the year end date in order to corroborate that transactions made close to the year-end date were recognised appropriately.
- Detailed analytical review procedures were performed to identify significant fluctuations and trends. Where items were noted which were not in line with our expectations, we obtained explanations and evidence from management and assessed whether, in our professional judgment, such items were appropriate.
- We completed journals testing, applying particular professional scepticism to revenue transactions.
- We also assessed whether the accounting policies for revenue recognition and other financial statements disclosures were in accordance with International Financial Reporting Standards.

Independent Auditors' Report

Other Information

The Board of Directors and CEO are responsible for the other information. The other information comprises the information included in the Annual Report of the Group, but does not include the Consolidated Financial Statements and our auditor's report thereon. Our opinion on the Consolidated Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. The Annual Report is not available at our reporting date but is expected to be made available to us after that date.

Responsibilities of the Board of Directors and CEO for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with IFRSs as adopted by the EU, and for such internal control as they determine is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Board of Directors and CEO are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and CEO are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditors' Report

- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with The Board of Directors and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide The Board of Directors and audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with The Board of Directors and audit committee, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the Consolidated Financial Statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the Consolidated Financial Statements.

The engagement partner on the audit resulting in this independent auditor's report are Hrafnhildur Helgadóttir and Sæmundur Valdimarsson.

Reykjavík, 22 February 2018

KPMG ehf.

Sæmundur Valdimarsson
Hrafnhildur Helgadóttir

Consolidated Income Statement for the year 2017

	Notes	2017	2016
Revenue			
Operating revenue		660,809	513,015
Other revenue		3,164	907
	4	663,973	513,922
Expenses			
Operating expenses		471,161	340,640
Salaries and related expenses	5	135,614	119,807
	4	606,775	460,447
Operating profit, EBITDA		57,198	53,475
Depreciation and amortization	8,9	(30,148)	(28,077)
Results from operating activities, EBIT		27,050	25,398
Finance income		870	1,021
Finance expense		(4,761)	(3,857)
Net foreign currency exchange (loss) gain		(3,345)	2,491
Net finance expense	6	(7,236)	(345)
Share of (loss) earnings of equity-accounted investees	11	(339)	210
Net earnings before income tax		19,475	25,263
Income tax	7	(2,671)	(3,368)
Net earnings for the year		16,804	21,895
Net earnings for the year attributable to:			
Equity holders of the Company		16,520	21,420
Non-controlling interest		284	475
		16,804	21,895
Earnings per share:			
Basic and diluted earnings per share (EUR per share)	15	0.0885	0.1148

The notes on pages 15 to 35 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income for the year 2017

	Notes	2017	2016
Net earnings for the year		16,804	21,895
Other comprehensive income:			
Items that may subsequently be reclassified to the income statement			
Foreign currency translation difference of foreign operations .....	(	6,263)	2,275
Effective portion of changes in fair value of cash flow hedges, net of income tax		748	0
Other comprehensive income, net of income tax		(5,515)	2,275
Total comprehensive income for the year		11,289	24,170
Total comprehensive income for the year attributable to:			
Equity holders of the Company		11,276	23,647
Non-controlling interest		13	523
		11,289	24,170

The notes on pages 15 to 35 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position

as at 31 December 2017

	Notes	2017	2016
Assets:			
Property, vessels and equipment	8	230,165	202,912
Intangible assets	9,10	66,982	41,558
Equity-accounted investees	11	10,229	2,871
Unlisted shares		474	271
Deferred tax assets	12	5,679	5,644
Total non-current assets		313,529	253,256
Inventories		3,946	2,281
Trade and other receivables	13,18	118,871	96,611
Cash and cash equivalents		23,169	39,543
Total current assets		145,986	138,435
Total assets		459,515	391,691
Equity:			
Share capital		1,165	1,165
Share premium		154,726	154,726
Translation reserve		(6,054)	(62)
Hedging reserve		748	0
Undistributed profits		25,648	9,866
Retained earnings		63,878	73,725
Total equity attributable to equity holders of the parent company	14	240,111	239,420
Non-controlling interest		4,499	4,355
Total equity		244,610	243,775
Liabilities:			
Loans and borrowings	16	107,808	62,105
Other long-term liabilities	22	4,650	0
Deferred tax liability	12	5,156	2,351
Total non-current liabilities		117,614	64,456
Loans and borrowings	16	18,176	19,044
Trade and other payables	17	79,115	64,416
Total current liabilities		97,291	83,460
Total liabilities		214,905	147,916
Total equity and liabilities		459,515	391,691

The notes on pages 15 to 35 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2017

	Attributable to equity holders of the Company						Total	Non-controlling interest	Total equity
	Share capital	Share premium	Translation reserve	Hedging reserve	Un-distributed profits	Retained earnings			
Changes in Equity 2016:									
Equity at 1 January 2016	1,165	154,726	(2,289)	0	0	70,781	224,383	3,741	228,124
Dividend paid (0.0461 EUR per share)						(8,610)	(8,610)		(8,610)
Changes in non-controlling interest							0	91	91
Total comprehensive income for the year			2,227			21,420	23,647	523	24,170
Profit of subsidiaries net of dividend received					9,866	(9,866)	0		0
Equity at 31 December 2016	1,165	154,726	(62)	0	9,866	73,725	239,420	4,355	243,775
Changes in Equity 2017:									
Equity at 1 January 2017	1,165	154,726	(62)	0	9,866	73,725	239,420	4,355	243,775
Dividend paid (0.0717 EUR per share)						(10,585)	(10,585)		(10,585)
Acquisition of subsidiaries with non-controlling interest							0	390	390
Changes in non-controlling interest							0	(259)	(259)
Total comprehensive income for the year			(5,992)	748		16,520	11,276	13	11,289
Profit of subsidiaries net of dividend received					15,782	(15,782)	0		0
Equity at 31 December 2017	1,165	154,726	(6,054)	748	25,648	63,878	240,111	4,499	244,610

The notes on pages 15 to 35 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2017

	Notes	2017	2016
Cash flows from operating activities:			
Net earnings for the year		16,804	21,895
Adjustments for:			
Depreciation and amortization	8,9	30,148	28,077
Net finance expense	6	7,236	345
Share of loss (earnings) of equity-accounted investees	11	339	(210)
Change in deferred taxes	7,12	(726)	531
Other changes		(1,874)	(898)
		51,927	49,740
Changes in current assets and liabilities:			
Inventories, change		(1,182)	(267)
Receivables, change		(18,727)	(1,348)
Payables, change		11,988	4,491
Change in current assets and liabilities		(7,921)	2,876
Interest received		850	724
Interest paid		(4,843)	(3,728)
Taxes paid		(2,593)	(945)
Net cash from operating activities		37,420	48,667
Cash flows used in investing activities:			
Acquisition of property, vessels and equipment	8	(48,455)	(27,742)
Acquisition of intangible assets	9	(3,499)	(3,908)
Proceeds from the sale of property, vessels and equipment		3,385	3,109
Investment in subsidiaries net of cash acquired	10	(18,397)	(11,307)
Investment in equity-accounted investees		(7,876)	0
Dividend received		0	81
Investment in unlisted shares		(297)	(140)
Net cash used in investing activities		(75,139)	(39,907)
Cash flows used in financing activities:			
Dividend paid to equity holders of the company		(10,585)	(8,610)
Dividend paid to non-controlling interest and other changes		(1,269)	91
Proceeds from non-current loans and borrowings		49,446	13,324
Repayment of non-current loans and borrowings		(15,011)	(9,566)
Net cash provided by (used in) financing activities		22,581	(4,761)
Changes in cash and cash equivalents		(15,138)	3,999
Cash and cash equivalents at the beginning of the year		39,543	35,983
Effects of exchange rate fluctuations on cash held		(1,236)	(439)
Cash and cash equivalents at year-end		23,169	39,543
Investing and financing activities not affecting cash flows:			
Acquisition of property, vessels, equipment and intangible assets	8,9	(9,939)	(2,728)
Proceeds from non-current loans and borrowings		9,939	2,728

The notes on pages 15 to 35 are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

General presentation	Page
1 Reporting entity	15
2 Basis of accounting	15
3 Measurement of fair values	15
26 Significant accounting policies	31
Notes to the Consolidated Income Statement	
4 Segment reporting	15
5 Salaries and related expenses	17
6 Finance income and expense	17
7 Income tax	17
Notes to the Consolidated Statement of Financial Position	
8 Property, vessels and equipment	18
9 Intangible assets	19
10 Investment in subsidiaries	20
11 Investment in equity-accounted investees	20
12 Deferred tax assets and liabilities	21
13 Trade and other receivables	21
14 Capital and reserves	21
15 Earnings per share	22
16 Loans and borrowings	23
17 Trade and other payables	24
18 Financial risk management	24
Other information	
19 Commitments	28
20 Related parties	28
21 Auditor's fees	29
22 Group entities	29
23 Other matters	30
24 Subsequent events	30

Notes to the Consolidated Financial Statements

1. Reporting entity

Eimskipafélag Íslands hf. (the "Company" or the "Parent Company") is a public limited liability company domiciled in Iceland. The address of the Company's registered office is Korngardar 2, 104 Reykjavík. The Consolidated Financial Statements of the Company for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as "Eimskip" or the "Group"). The Parent Company is an investment company focused on investments in shipping and logistic services. The Company's shares are listed at Nasdaq Iceland.

2. Basis of accounting

a. Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial information of listed companies in accordance with Icelandic Financial Statement Act No. 3/2006 and rules for issuers of financial instruments at Nasdaq Iceland.

The financial statements were approved and authorized for issue by the Company's Board of Directors on 22 February 2018.

b. Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis. The methods used to measure fair values for disclosure purposes are discussed in note 3.

c. Functional and presentation currency

These Consolidated Financial Statements are presented in EUR, which is the Parent Company's functional currency. All financial information presented in EUR has been rounded to the nearest thousand unless otherwise indicated.

d. Use of estimates and judgements

The preparation of the Consolidated Financial Statements in conformity with IFRS 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 recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the following notes:

Note 10 - Investment in subsidiaries

Note 12 - Measure of the recoverable amounts of deferred tax assets

Note 13 - Trade and other receivables

3. Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. Fair values have been measured for measurement and/or disclosure purposes based on the present value of future cash flows, discounted at the market rate of interest at the reporting date. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

4. Segment reporting

Business segments

Eimskip has two reportable segments, as described below, which are Eimskip's strategic business units. The strategic business units offer different products and services on different markets and are managed separately. The segment reporting is based on an internal reporting function of Eimskip. The following summary describes the operations in each of Eimskip's reportable segments:

Liner services: The main emphasis in Eimskip's operations is the sale of transportation of goods to and from Iceland, Norway and the Faroe Islands through its service routes in the North Atlantic. These services include sea transportation, trucking, warehousing and logistic services.

Forwarding services: The second segment represents transportation solutions outside Eimskip's own operating system, utilizing the global network of Eimskip's offices and associates, mainly in the reefer sector.

Notes

4. Segment reporting, continued

Business segments

	Liner services	Forwarding services	Consoli- dated
For the year 2017			
Revenue, external	438,416	225,557	663,973
Inter-segment revenue	39,942	53,288	93,230
Total	478,358	278,845	757,203
Expenses, external	(385,532)	(221,243)	(606,775)
Inter-segment expense	(53,288)	(39,942)	(93,230)
EBITDA	39,538	17,660	57,198
Depreciation and amortization	(27,712)	(2,436)	(30,148)
EBIT	11,826	15,224	27,050
Net finance expense	(6,170)	(1,066)	(7,236)
Share of earnings (loss) of equity-accounted investees	22	(361)	(339)
Income tax	554	(3,225)	(2,671)
Net earnings for the year	6,232	10,572	16,804
Segment assets	377,529	81,986	459,515
Segment liabilities	173,256	41,649	214,905
Capital expenditure	59,442	2,451	61,893
For the year 2016			
Revenue, external	380,296	133,626	513,922
Inter-segment revenue	35,427	45,959	81,386
Total	415,723	179,585	595,308
Expenses, external	(327,322)	(133,125)	(460,447)
Inter-segment expense	(45,959)	(35,427)	(81,386)
EBITDA	42,442	11,033	53,475
Depreciation and amortization	(25,627)	(2,450)	(28,077)
EBIT	16,815	8,583	25,398
Net finance expense	(79)	(266)	(345)
Share of earnings (loss) of equity-accounted investees	334	(124)	210
Income tax	(555)	(2,813)	(3,368)
Net earnings for the year	16,515	5,380	21,895
Segment assets	328,353	63,338	391,691
Segment liabilities	119,723	28,193	147,916
Capital expenditure	33,270	1,108	34,378

Geographical segments

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

	North Atlantic	Other territories	Consoli- dated
For the year 2017			
Revenue, external	617,498	46,475	663,973
Segment assets	444,031	15,484	459,515
Capital expenditure	61,825	68	61,893
For the year 2016			
Revenue, external	472,667	41,255	513,922
Segment assets	375,808	15,883	391,691
Capital expenditure	34,307	71	34,378

Notes

5. Salaries and related expenses

Salaries and related expenses are specified as follows:

	2017	2016
Salaries	110,283	97,957
Defined pension contribution plan	10,940	8,458
Other related expenses	14,391	13,392
Salaries and related expenses	135,614	119,807
Average number of full-time equivalents during the year	1,737	1,598
Average number of employees	1,782	1,632
Number of employees at year-end	1,853	1,678

6. Finance income and expense

Finance income is specified as follows:

Interest income	785	935
Dividend received	85	86
Finance income	870	1,021

Finance expense is specified as follows:

Interest on long-term loans	(3,585)	(2,837)
Other finance expense	(1,176)	(1,020)
Finance expense	(4,761)	(3,857)

Net foreign currency exchange (loss) gain	(3,345)	2,491
---	----------	-------

Net finance expense	(7,236)	(345)
---------------------------	----------	--------

7. Income tax

(i) Income tax recognized in the income statement:

Current tax expense:

Current period	3,559	2,751
----------------------	-------	-------

Deferred tax:

Origination and reversal of temporary differences	(831)	634
---	--------	-----

Other changes	(57)	(17)
---------------------	-------	-------

	(888)	617
--	--------	-----

Total income tax	2,671	3,368
------------------------	-------	-------

(ii) Reconciliation of effective income tax rate:

	2017		2016	
Net earnings before income tax		19,475		25,263
Income tax using the Company's domestic tax rate	20.0%	3,895	20.0%	5,053
Effect of tax rates in foreign jurisdictions	(3.8%)	(748)	(2.5%)	(640)
Under or over provided in previous years	0.0%	(5)	0.0%	(9)
Other changes	(2.4%)	(471)	(4.1%)	(1,036)
Effective income tax rate	13.7%	2,671	13.3%	3,368

Income tax relating to items in other comprehensive income amounted to EUR 187 thousand (2016: EUR 0 thousand).

Notes

8. Property, vessels and equipment

Property, vessels and equipment are specified as follows:

	Land and buildings	Vessels	Vessels under construction	Containers and equipment	Total
Cost					
Balance at 1 January 2016	72,095	129,272	0	110,824	312,191
Reclassification of assets	10,161 (	433)	0 (	10,168)	(440)
Additions in acquisition	0	0	0	720	720
Additions	4,253	3,185	0	23,032	30,470
Disposals	(149)	(12,448)	0 (	2,730)	(15,327)
Currency adjustments	1,047	1,924	0	216	3,187
Balance at 31 December 2016	87,407	121,500	0	121,894	330,801
Balance at 1 January 2017	87,407	121,500	0	121,894	330,801
Reclassification of assets	274	0	0 (	274)	0
Additions in acquisition	1,656	0	0	1,127	2,783
Additions	10,614	8,645	12,258	26,877	58,394
Disposals	(156)	(18,200)	0 (	3,257)	(21,613)
Currency adjustments	(1,096)	(3,723)	0 (	482)	(5,301)
Balance at 31 December 2017	98,699	108,222	12,258	145,885	365,064
Depreciation					
Balance at 1 January 2016	17,563	52,586	0	43,730	113,879
Reclassified assets	2	0	0 (	2)	0
Additions in acquisition	0	0	0	394	394
Disposals	(59)	(10,807)	0 (	2,208)	(13,074)
Depreciation	3,422	9,334	0	12,976	25,732
Currency adjustments	353	387	0	218	958
Balance at 31 December 2016	21,281	51,500	0	55,108	127,889
Balance at 1 January 2017	21,281	51,500	0	55,108	127,889
Additions in acquisition	708	0	0	781	1,489
Disposals	(155)	(16,246)	0 (	2,473)	(18,874)
Depreciation	3,736	8,402	0	13,928	26,066
Currency adjustments	(593)	(630)	0 (	448)	(1,671)
Balance at 31 December 2017	24,977	43,026	0	66,896	134,899
Carrying amounts					
At 1 January 2016	54,532	76,686	0	67,094	198,312
At 31 December 2016	66,126	70,000	0	66,786	202,912
At 31 December 2017	73,722	65,196	12,258	78,989	230,165

Finance leases

As a part of Eimskip's activities, customary leasing agreements are entered into, especially with regard to the chartering of vessels and leasing of containers and other equipment. In some cases, the leasing agreements comprise purchase options and options for extension of the lease term. In the Consolidated Financial Statements, assets held under finance leases are recognized in the same way as owned assets. The carrying amount of assets under finance leases at year end 2017 amounted to EUR 15.7 million (2016: EUR 8.5 million). The commitment according to the lease agreements at the same time amounted to EUR 13.2 million (2016: EUR 7.7 million). The assets held under finance leases are all equipment and real estate.

Notes

8. Property, vessels and equipment, continued

Pledges

Property, vessels and equipment with a carrying amount of EUR 66.6 million (2016: EUR 66.2 million) have been pledged as security for loans amounting to EUR 126.0 million (2016: EUR 81.1 million) at year-end.

Borrowing costs

Borrowing costs amounting to EUR 0.1 million with an interest rate of 2.42% have been capitalized due to vessels under construction.

9. Intangible assets

Intangible assets and amortization are specified as follows:

	Goodwill	Brand name	Software	Market and customer related	Total
Cost					
Balance at 1 January 2016	2,841	15,120	17,302	6,738	42,001
Reclassification of assets	(756)	0	(199)	1,377	422
Additions in acquisition	6,647	0	0	5,830	12,477
Additions	158	0	3,908	0	4,066
Currency adjustments	403	34	13	113	563
Balance at 31 December 2016	9,293	15,154	21,024	14,058	59,529
Balance at 1 January 2017	9,293	15,154	21,024	14,058	59,529
Additions in acquisition	14,545	0	0	11,045	25,590
Additions	805	0	3,208	0	4,013
Disposals	0	0	(3,144)	0	(3,144)
Currency adjustments	24	(31)	(6)	(157)	(170)
Balance at 31 December 2017	24,667	15,123	21,082	24,946	85,818
Amortization					
Balance at 1 January 2016	0	0	13,879	1,913	15,792
Reclassified assets	0	0	(199)	0	(199)
Amortization	0	0	1,583	762	2,345
Currency adjustments	0	0	7	26	33
Balance at 31 December 2016	0	0	15,270	2,701	17,971
Balance at 1 January 2017	0	0	15,270	2,701	17,971
Disposal	0	0	(3,144)	0	(3,144)
Amortization	0	0	2,261	1,821	4,082
Currency adjustments	0	0	(40)	(33)	(73)
Balance at 31 December 2017	0	0	14,347	4,489	18,836
Carrying amounts					
At 1 January 2016	2,841	15,120	3,423	4,825	26,209
At 31 December 2016	9,293	15,154	5,754	11,357	41,558
At 31 December 2017	24,667	15,123	6,735	20,457	66,982
Impairment testing					

Intangible assets other than goodwill and brand names are stated at cost less any accumulated amortization. Goodwill and brand name are assessed as having an indefinite useful life.

The carrying amount of goodwill and brand name are tested annually for impairment. No impairment has been recognized.

The Company has acquired several subsidiaries in the years 2014-2017. Each acquired company is considered to be one Cash Generating Unit ("CGU") for the purpose of impairment testing. The impairment tests were performed in the fourth quarter of 2017 and were based on the numbers of 31 December 2017 as well as the board approved budget for the year 2018. The impairment tests are in the form of discounted cash-flow analysis. The periods projected are the years 2019-2023 with a fixed growth rate after the projected period when estimating the terminal value. The material variables in the test are revenue growth, EBITDA ratio, investments and growth rate after the five year period.

Notes

9. Intangible assets, continued

	2017	2016
Future growth rate	2,0% - 3,2%	2,0%
Weighted-average cost of capital	8,4% - 10,5%	7,0% - 11,0%
Debt-ratio	0% - 55%	0% - 59%

An increase of 1% in the weighted-average cost of capital, a decrease of 5% in EBITDA and a decrease of 1% in the future growth rate would not have led to impairment at the year end of 2017.

10. Investment in subsidiaries

During the year the Group acquired the company Mareco N.V., CSI Group LLC and SHIP-LOG A/S. The acquisitions were accounted for by applying the purchase method. Pre-acquisition carrying amounts were determined based on applicable IFRS standards immediately before the acquisition. The values of assets and liabilities recognized on acquisition are their estimated fair values. Purchase price allocation of calculated goodwill on acquisition has been finalized for the above mentioned companies. The following table describes the recognized values on acquisition.

	Pre-acquisition carrying amounts	Fair value adjustment	Recognized values on acquisition
Property, vessels and equipment	1,350	0	1,350
Intangible assets	14	11,045	11,059
Goodwill	481	(481)	0
Trade and other receivables	11,191		11,191
Cash and cash equivalents	10,417		10,417
Deferred tax liability	(5)	(3,529)	(3,534)
Trade and other payables	(11,540)		(11,540)
Loans and borrowings	(1,231)		(1,231)
Net identifiable assets and liabilities	10,677	7,035	17,712
Non-controlling interest	(3,285)	3,203	(82)
Put option liability of non-controlling interest	0	(3,203)	(3,203)
Calculated goodwill on acquisition	20,715	(7,035)	13,680
Total purchase price on acquisition	28,107	0	28,107

11. Equity-accounted investees

Eimskip has interests in a number of individually immaterial associates and a joint operation. The ownership percentage, carrying amounts and share of earnings of associates is specified as follows:

	Ownership	Share of earnings 2017	Share of earnings 2016	Book value 2017	Book value 2016
Shares in associated companies					
Qingdao Port Eimskip					
Coldchain Log. Co. Ltd., China	30.0%	(292)	(124)	530	875
Truenorth Ísland ehf., Iceland	31.9%	(101)	262	750	1,041
Hammerfest Fryseterminal AS, Norway	20.5%	0	12	191	204
Krít eignarhaldssjóður, Iceland	40.0%	0	0	99	0
		(393)	150	1,570	2,120
Joint operation					
ElbFeeder Inc., The Marshall Islands	49.9%	0	0	7,616	0
P/F í Ánunum, The Faroe Islands	50.0%	54	60	803	751
P/F Gervi, The Faroe Islands	51.0%	0	0	240	0
		54	60	8,659	751
Total		(339)	210	10,229	2,871

Notes

12. Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

	Assets	Liabilities	Net
2017			
Property, vessels and equipment	270	(1,290)	(1,020)
Intangible assets	21	(159)	(138)
Current assets	1,276	(13)	1,263
Current liabilities	1	(25)	(24)
Other	272	(4,959)	(4,687)
Tax loss carried-forward	5,129	0	5,129
Total tax assets (liabilities)	6,969	(6,446)	523
Set off tax	(1,290)	1,290	0
Net tax assets	5,679	(5,156)	523
2016			
Property, vessels and equipment	284	(925)	(641)
Intangible assets	4	(1,832)	(1,828)
Current assets	2,239	(17)	2,222
Current liabilities	15	0	15
Other	53	(333)	(280)
Tax loss carried-forward	3,805	0	3,805
Total tax assets (liabilities)	6,400	(3,107)	3,293
Set off tax	(756)	756	0
Net tax assets	5,644	(2,351)	3,293

The Group has tax losses carried-forward that have not been recognized. If those tax losses carried-forward would be recognized, deferred tax asset would increase by 3.1 million EUR (2016: EUR 3.5 million).

13. Trade and other receivables

Trade and other receivables are specified as follows:

	2017	2016
Trade receivables	104,294	84,961
Restricted cash	2,777	3,119
Other receivables	11,800	8,531
Trade and other receivables total	118,871	96,611

Restricted cash consists of deposits for guarantees issued by Eimskipafélag Íslands hf. on behalf of its subsidiaries for, among other, tax authorities, customs, port authorities and leases of office buildings.

Allowance for impairment losses of trade receivables are specified as follows:

Balance at beginning of year	(12,228)	(9,246)
Write-offs	3,894	95
Changes in allowance for impairment losses	380	(3,077)
Balance at year-end	(7,954)	(12,228)

For more information regarding trade and other receivables see note 18.

14. Capital and reserves

Share capital

The Company's capital stock is nominated in Icelandic króna (ISK). The nominal value of each share is ISK 1 and one vote is attached to each share. Total authorized and issued shares were 200,000,000 both at the beginning and at the end of the year.

Total outstanding shares were 186,639,230 at the year-end and have remained unchanged from the beginning of 2016. The EUR amount of capital stock was 1.2 million at year-end 2017.

Notes

14. Capital and reserves, continued

Shares issued to A1988 hf.

According to the composition agreement for A1988 hf., finalized in 2009, a 4.2% shareholding in Eimskipafélag Íslands hf. was not distributed to creditors but reserved for A1988 hf. to satisfy contingent claims that might arise in coming periods resulting from events prior to the composition agreement. The shares do not have voting rights attached to them.

If the value of the shares exceeds the contingent claims accepted by A1988 hf. in accordance with the composition agreement, the remaining shares will be transferred to Eimskipafélag Íslands hf. without any compensation. These shares are not recognized in the statement of financial position at year-end. To date, no material unrecorded contingent claims have been accepted by A1988 hf. which still holds 1,000,000 shares which corresponds to 0.5% of the total share capital of Eimskip.

Share premium

Share premium represents excess of payment above nominal value that shareholders have paid for shares sold by the Company. The balance of the share premium account can be used to offset losses not covered by other reserves or to offset stock splits.

Translation reserve

The 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.

Undistributed profits

According to Icelandic law, companies are required to recognize share in profit or loss of subsidiaries and associated companies that exceeds dividend received or declared from those companies in a restricted reserve among equity. If a subsidiary or an associated company is sold or liquidated, the undistributed profit or loss relating to that entity shall be transferred to retained earnings.

Dividend

The Board of Directors has approved the following dividend policy: "The policy of Eimskipafélag Íslands hf. is to pay annual dividend that equals an amount in the range of 10-65% of net profit after taxes. Decisions on dividend payment, and the exact amount, are subject to the Company's future investment plans, market outlook and satisfactory capital structure at any given time."

According to a resolution made on the Company's 2017 annual General Meeting, a dividend of EUR 10.6 million or ISK 6.80 per share, was paid out to shareholders, which represented 50.0% of net earnings for the year 2016. According to a resolution made on the Company's 2016 Annual General Meeting, dividend in the amount of EUR 8.6 million or ISK 6.50 per share, was paid to shareholders, which represented 47.9% of the Company's profits for the year 2015.

Treasury shares are not entitled to receive dividend. The Board of Directors proposes a dividend payment to shareholders in 2018 in the amount of ISK 6.80 per share. The proposed dividend payment is ISK 1,269.1 million, or EUR 10.2 million, which represents 61% of net earnings for the year 2017.

15. Earnings per share

Basic and diluted earnings per share

The calculation of basic earnings per share was based on earnings attributable to shareholders and a weighted average number of shares outstanding during the year. Diluted earnings per share is equal to earnings per share whereas Eimskip has not issued convertible bonds nor granted stock options. Calculations are as follows:

	2017	2016
Net earnings attributable to equity holders of the Company	16,520	21,420
Number of issued shares at 1 January	200,000	200,000
Effect of treasury shares	(13,361)	(13,361)
Weighted average number of outstanding shares at 31 December	186,639	186,639
Basic and diluted earnings per share (EUR)	0.0885	0.1148

Notes

16. Loans and borrowings

This note provides information on the contractual terms of Eimskip's interest bearing loans and borrowings. For more information about Eimskip's exposure to foreign currency risk, see note 18:

Loans and borrowings consist of the following:

	2017	2016
Secured bank loans	112,657	73,962
Finance lease liabilities	13,205	7,187
Bank overdraft and short term borrowings	122	0
Total loans and borrowings	125,984	81,149
Current maturities of secured bank loans	(15,987)	(15,784)
Finance lease liabilities payable within one year	(2,067)	(3,260)
Bank overdraft and short term borrowings	(122)	0
	(18,176)	(19,044)
Non-current loans and borrowings	107,808	62,105

The loan agreements of Eimskip contain restrictive covenants. At year-end 2017 and 2016 Eimskip complied with all restrictive covenants.

Secured bank loans

Secured bank loans are payable as follows:

	2017		2016	
	Nominal interest	Carrying amount	Nominal interest	Carrying amount
Loans in EUR	2.5%	92,901	2.9%	52,627
Loans in USD	4.1%	7,046	3.5%	9,250
Loans in ISK	5.1%	10,862	7.0%	10,384
Loans in other currencies	-	1,848	-	1,701
Total secured bank loans		112,657		73,962

Aggregated annual maturities of secured-bank loans are as follows:

	2017	2016
On demand or within 12 months	15,987	15,784
12 - 24 months	60,312	16,493
24 - 36 months	4,214	5,446
36 - 48 months	5,572	3,986
48 - 60 months	3,963	5,393
After 60 months	22,609	26,860
Total secured bank loans	112,657	73,962

Finance lease liabilities

Finance lease liabilities are payable as follows:

	2017		2016	
	Minimum lease payments	Principal	Minimum lease payments	Principal
Less than one year	2,261	2,067	3,631	3,260
Between one and five years	11,502	11,138	4,241	3,821
More than five years	0	0	110	106
Total	13,763	13,205	7,982	7,187

Notes

16. Loans and borrowings, continued

Reconciliation of movements of loans and borrowings to cash flow's financing activities

	2017	2016
Balance of loans and borrowings as at 1 January	81,149	70,530
Proceeds from non-current loans and borrowings with cash effects	49,446	13,324
Non-cash proceeds from non-current loans and borrowings	9,939	2,728
Repayment of non-current loans and borrowings	(15,011)	(9,566)
Additions in acquisition	1,229	0
Currency adjustments	(768)	4,133
Loans and borrowings at 31 December	125,984	81,149

17. Trade and other payables

Trade and other payables are attributable to the following:

Trade payables	50,226	37,530
Income tax payable	426	1,068
Other payables	28,463	25,818
Total	79,115	64,416

18. Financial risk management

Overview

Eimskip has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about Eimskip's exposure to each of the above risks as well as operational risk, Eimskip's objectives, policies and processes for assessing and managing risk, and Eimskip's management of capital. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of Eimskip's risk management framework.

Eimskip's risk management policies are established to identify and analyze the risks faced by Eimskip, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Eimskip's activities. Eimskip, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversees how management monitors compliance with Eimskip's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by Eimskip.

(i) Credit risk

Credit risk is the risk of financial loss to Eimskip if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Eimskip's receivables from customers and investment securities.

Trade and other receivables

Eimskip's exposure to credit risk is influenced mainly by the individual characteristics of each customer. No single customer accounts for more than 10% of Eimskip's revenue from sales transactions.

Eimskip has established a credit policy under which each new customer is analyzed individually for creditworthiness before Eimskip's standard payment and delivery term and conditions are offered. Eimskip's review includes external ratings, when available, and in some cases bank references. Customers that fail to meet Eimskip's benchmark creditworthiness may transact with Eimskip only on a prepayment basis.

Notes

18. Financial risk management, continued

Trade and other receivables, continued

Goods that are shipped or transported may be with-held until payment for service rendered has been received. Eimskip usually does not require collateral in respect to trade and other receivable.

Eimskip establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Note	2017 Carrying amount	2016 Carrying amount
Trade and other receivables	13	118,871	96,611
Cash and cash equivalents		23,169	39,543
Total		142,040	136,154

At year-end 2017 and 2016 there were no significant concentration of credit risk for trade and other receivables by individual counterparties or individual countries.

Impairment risk

The aging of trade receivables at the reporting date was as follows:

	Gross 2017	Impairment 2017	Gross 2016	Impairment 2016
Not past due	86,639	(748)	71,420	(646)
Past due 1 - 90 days	24,772	(287)	22,080	(1,569)
Past due 91 - 180 days	3,509	(259)	4,044	(1,481)
More than 180 days	11,905	(6,660)	11,295	(8,532)
Total	126,825	(7,954)	108,839	(12,228)

(ii) Liquidity risk

Liquidity risk is the risk that Eimskip will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. Eimskip's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Eimskip's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

Financial liabilities	Carrying amount	Contractual cash flow	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
31.12.2017						
Secured bank loans	112,779	124,344	17,528	63,166	16,765	26,885
Finance lease liabilities	13,205	13,898	2,362	9,471	1,971	94
Trade and other payables	79,115	79,115	79,115	0	0	0
Total	205,099	217,357	99,005	72,637	18,736	26,979
31.12.2016						
Secured bank loans	73,962	84,422	16,989	18,362	18,065	31,006
Finance lease liabilities	7,187	7,982	3,631	1,946	2,295	110
Trade and other payables	64,416	64,416	64,416	0	0	0
Total	145,565	156,820	85,036	20,308	20,360	31,116

Cash flows included in the maturity analysis are not expected to occur significantly earlier, or at significantly different amounts.

Notes

18. Financial risk management, continued

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect Eimskip's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return.

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in currencies other than the respective functional currencies of the Group entities. At year-end 2017 the primary risks are attached to the US Dollar (USD), the Icelandic Krona (ISK), the Japanese Yen (JPY) but also the Norwegian Krona (NOK) as can be seen in the table below.

Exposure to currency risk

Eimskip's exposure to foreign currency risk is as follows based on nominal amounts:

31 December 2017	USD	ISK	JPY	NOK	Other
Trade and other receivables	21,461	28,746	1,093	156	5,316
Cash and cash equivalents	5,285	888	5	79	1,761
Loans and borrowings	0 (	15,149)	0	0 (	1,046)
Trade and other payables	(11,545)	(20,790)	(7)	(604)	(5,885)
Net balance sheet exposure	15,201	(6,305)	1,091	(369)	146

31 December 2016	USD	ISK	EUR	JPY	Other
Trade and other receivables	16,886	27,361	1,110	1,239	4,076
Cash and cash equivalents	9,702	5,307	2,160	5	791
Loans and borrowings	0 (	15,330)	(992)	0 (	616)
Trade and other payables	(7,340)	(23,592)	(823)	(5)	(4,754)
Net balance sheet exposure	19,248	(6,254)	1,455	1,239	(503)

Sensitivity analysis

A 10% strengthening of the EUR against the following currencies at 31 December 2017 would have changed result after income tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for the year 2016.

	2017	2016
USD	(1,162)	(1,485)
ISK	500	488
JPY	(87)	(99)
NOK	30	(2)
EUR	29	121

A 10% weakening of the EUR against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above on the basis that all other variables remain constant.

The following significant exchange rates were applied during the year:

EUR:	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
USD	1.1281	1.1072	1.1993	1.0541
ISK	120.4094	133.7192	124.2545	119.2000
RMB	7.6254	7.3483	7.8044	7.3202
JPY	126.5502	120.1215	135.0074	123.4000
PLN	4.2571	4.3620	4.1770	4.4103

Notes

18. Financial risk management, continued

Interest rate risk

At the reporting date the interest rate profile of Eimskip's interest bearing financial instruments was:

	Carrying amount	
	2017	2016
Variable rate instruments		
Cash and cash equivalents	23,169	39,543
Financial liabilities	(125,984)	(81,149)
Net exposure	(102,815)	(41,606)

A change of 100 basis points in interest rates at the reporting date would increase (decrease) result after income tax by EUR 170 thousand (2016: EUR 95 thousand). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for the year 2016. Eimskip does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss.

(iv) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with Eimskip's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of Eimskip's operations.

Eimskip manages operational risk in order to avoid financial losses and damage to Eimskip's reputation. When managing this risk, overall cost effectiveness and avoidance of control procedures that restrict initiative and creativity are considered.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

Capital management

Eimskip's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business.

For the purposes of managing capital, management monitors the equity ratio and the net debt to equity ratio. The goal is to maintain both a strong equity ratio and a strong ratio of net debt to EBITDA.

(i) Equity ratio

	2017	2016
Total equity	244,610	243,775
Total balance sheet capital	459,515	391,691
Equity ratio	53.23%	62.24%

(ii) Net debt to EBITDA ratio

Total interest-bearing debt	125,984	81,149
Cash and cash equivalents	(23,169)	(39,543)
Net debt	102,815	41,606
EBITDA	57,198	53,475
Net debt / EBITDA	1.80	0.78

Notes

19. Commitments

Operating lease commitments

Non-cancellable operating lease commitments are payable as follows:

	2017	2016
Less than one year	7,347	6,143
Between one and five years	3,188	5,125
More than five years	627	924
Total operating lease commitments	11,162	12,192

Eimskip leases vessels, real estate, trucks and equipment under operating leases. The leases generally run for a period of six months to six years.

Capital commitments

In January 2017, Eimskip signed a shipbuilding contract with a Chinese shipbuilding company for the building of two new 2,150 TEU container vessels. The contract price of each vessel is approximately USD 32.0 million or EUR 26.7 million. The vessels are expected to be delivered in 2019. The payment profile of the vessels is that 40% of the contract price is paid during the building period and 60% upon delivery. As of the end of the year, USD 12.8 million or EUR 11.7 million has been paid towards the agreements and capitalized as property, vessels and equipment. In April 2017, Eimskip secured the financing of the vessel buildings with a German bank, KfW IPEX Bank GmbH, for 80% of the contract price with a 15 year term.

20. Related parties

The Company's largest shareholders Yucaipa American Alliance Fund II LP, with 16.34% shareholding, Lífeyrissjóður verzlunarmanna with 14.89% shareholding and Yucaipa American Alliance (Parallel) Fund II LP with 10.77% shareholding of outstanding shares are considered related parties as well as subsidiaries, material equity accounted investees and key management personnel. Intercompany transactions with subsidiaries are eliminated in the consolidation.

During the year there were no transactions nor other outstanding balances at year-end with the three major shareholders nor with equity accounted investees.

During the year there were no transactions nor outstanding balances at year-end with the management.

Fee paid to the Board of Directors

	Fee in ISK		Fee in EUR		Shares at
					year-end*
	2017	2016	2017	2016	2017
Richard Winston Mark d'Abo, Chairman ***	9,985	8,794	83	66	0
Víglundur Thorsteinsson, Vice-Chairman	5,400	5,160	45	38	0
Helga Melkorka Óttarsdóttir, Board Member	3,972	3,787	33	28	0
Hrund Rudolfsdóttir, Board Member	5,557	5,292	46	40	0
Lárus L. Blöndal, Board Member	5,457	5,196	45	39	3,190
Marc J. Smernoff, Alternate of the Board ***	3,328	3,463	28	26	0

Salaries and benefits paid to Executive Management

	In ISK		In EUR		Shares at	
						year-end*
	2017	Base salary	Other **	Base salary			Other
Gylfi Sigfússon, CEO	67,424	35,201	560	292	9,615	
Five VP's of the Company and the CFO ****	170,367	75,023	1,415	623	26,443	

	In ISK		In EUR		Shares at	
						year-end*
	2016	Base salary	Other **	Base salary			Other
Gylfi Sigfússon, CEO	67,970	26,299	525	198	9,615	
Five VP's of the Company and the CFO ****	147,522	44,327	1,103	331	26,443	

* Number of shares held directly by Board of Directors and Executive Management or parties related to them.

** Cash incentives, travel allowance, pension contributions and house and car benefits.

*** These Board members are not independent of Yucaipa Funds which owns in total 50.6 million shares in the Company. The board fee for these Board members has been accrued but not paid.

**** Hilmar Pétur Valgardsson CFO, Bragi Thór Marinósson, EVP of International Operations and Logistics, Elín Hjálmsdóttir VP of Human Resources and Marketing, Matthías Matthíasson, VP of North Atlantic Container Liner Services, Guðmundur Nikulásson, VP of Iceland Domestic Operations and Services.

Notes

21. Auditor's fees

	2017	2016
Audit of the Financial Statements for the relevant fiscal year	799	698
Other services	250	280
	1,049	978
Thereof fee to the auditor of the Parent Company	580	476

22. Group entities

At year-end the Company owned directly ten subsidiaries that are all included in the consolidation. In January 2017, Eimskip acquired the forwarding company Mareco N.V. In April 2017, Eimskip acquired a 90% share in the container trading company CSI Group LLC. In June 2017 Eimskip acquired the forwarding company SHIP-LOG A/S. The acquired companies are included in the Condensed Consolidated Interim Financial Statements. The direct subsidiaries owned 61 subsidiaries at year-end. The Company holds the majority of voting power in all of its subsidiaries. Assets, liabilities, revenues and expenses in Consolidated Financial Statements that include a non-controlling interest are immaterial to the Group.

The Group's direct subsidiaries are as follows:

	Country of incorporation	Ownership Interest 2017	Ownership Interest 2016
Eimskip Ísland ehf.	Iceland	100%	100%
TVG-Zimsen ehf.	Iceland	100%	100%
Eimskip USA, Inc.	USA	100%	100%
Eimskip UK Ltd.	England	100%	100%
Eimskip Holding B.V.	The Netherlands	100%	100%
Eimskip Asia B.V.	The Netherlands	100%	100%
P/f Skipafélagid Føroyar	Faroe Islands	100%	100%
Harbour Grace CS Inc.	Canada	51%	51%
Eimskip REIT ehf.	Iceland	100%	100%
Sæferdir ehf.	Iceland	100%	100%

As a result of a purchase price allocation for acquisition in subsidiaries, Eimskip has recognized in the statement of financial position, a financial liability in the amount of EUR 4.6 million which reflects the estimated exercise price of put options issued towards non-controlling interests for their shareholding in the subsidiaries acquired. The financial liability is initially carried at fair value and classified as non-current. The fair value changes of the liability will subsequently be recognized through equity. In the event that the options expire unexercised, the liability is derecognised with a corresponding recognition of a non-controlling interest in equity and to other equity.

23. Other matters

Eimskipafélag Íslands hf. and its subsidiaries, Eimskip Ísland ehf. and TVG-Zimsen ehf., have been under investigation of the Icelandic Competition Authority since 10 September 2013. At this point the subject matter of the investigation is not known and any elaboration on the potential outcome of the investigation is premature. The investigation has had no effect on the Company's Financial Statements. For further information, see note 23 in the Company's Consolidated Financial Statements 2014.

The Icelandic Directorate of Internal Revenue ruled in December 2017 that the Company should pay EUR 0.2 million in income tax for operations of foreign vessel subsidiaries in 2013 and 2014. The Company does not agree with the ruling and will appeal it to the Internal Revenue Board. The Company has paid the EUR 0.2 million in income tax, but has not expensed the tax in the Income Statement. If the Company loses the case due for the years 2013 to 2017, it is estimated that the company will have to expense EUR 5.4 million in the Income Statement and pay EUR 0.7 million, as well as utilizing tax loss carried-forward.

24. Subsequent events

There are no subsequent events to report.

Notes

25. Significant accounting policies

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.

The disclosures to the Consolidated Financial Statements are prepared on the basis on the concept of materiality. Therefore information that is considered immaterial for the user of the Consolidated Financial Statements is not disclosed.

a. Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date on which control ceases.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements.

(iv) Investment in equity-accounted investees

Associates are those entities in which the Group has significant influence, but not control, over financial and operating policies. Joint operation involves contractual sharing of control. Investment in equity-accounted investees is accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to recognition, the Consolidated Financial Statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

b. Foreign currency

(i) 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 the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year and the amortized cost in foreign currency translated at the exchange rate at the end of the year. 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 recognized in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated to EUR at foreign exchange rates at the reporting date. The income and expenses of foreign operations are translated to EUR at the average exchange rate for the year.

Foreign currency differences are recognized in other comprehensive income and accumulated translation reserve, except for the extent that the translation difference is allocated to non-controlling interest.

When a foreign operation is disposed of in its entirety or partially such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of an associate while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Notes

25. Significant accounting policies, continued

c. Financial instruments

(i) Non-derivative financial assets

The Group has the following non-derivative financial assets: trade and other receivables, cash and cash equivalents and unlisted equity shares.

(ii) Derivative financial instruments and hedge accounting

A derivative is a financial instrument or other contract, the value of which changes in response to a change in an underlying variable such as an exchange or interest rate, which requires no initial net investment or initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and which is settled at a future date. Derivatives are recognized at fair value. Fair value changes are recognized in the income statement as finance income and expense. Derivatives with positive fair values are recognized as financial assets and derivatives with negative fair values are recognized as trading liabilities.

The Group holds derivative financial instruments to hedge a part of its exposure to fluctuation in oil prices.

When a derivative is designated as a cash flow hedging instrument, the effective portion of the changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedging reserve in equity. Any ineffective portion of the changes in the fair value of the derivative is recognized immediately in profit or loss. The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss or the hedged item affects profit or loss.

(iii) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

(iv) Non-derivative financial liabilities

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(v) Share capital

Share capital is classified as equity. Incremental costs directly attributable to issue of share capital is recognized as a deduction from equity, net of any tax effects.

When share capital is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity and the resulting surplus or deficit on the transaction is presented within share premium.

d. Property, vessels and equipment

(i) Recognition and measurement

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

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

When parts of an item of property, vessels and equipment have different useful lives, they are accounted for as separate items (major components) of property, vessels and equipment.

Gains and losses on disposal of an item of property, vessels and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, vessels and equipment, and are recognized net in profit or loss.

Notes

25. Significant accounting policies, continued

d. Property, vessels and equipment, continued

(ii) Subsequent costs

The cost of replacing part of an item of property, vessels and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, vessels and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated for the depreciable amount, which is the cost of an asset less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, vessels and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of buildings, vessels and equipment are as follows:

Buildings	15 - 50 years
Vessels	5 - 25 years
Containers and equipment	2 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each year-end and adjusted if appropriate.

e. Intangible assets

(i) Brand name and customer relations

Following a purchase price allocation performed in 2010 in respect of subsidiaries acquired from A1988 hf. the difference between the purchase price and equity of acquired subsidiaries was allocated to identifiable assets. The value of the brand name "Eimskip" and customer relations is included among intangible assets.

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

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss when incurred.

(iii) Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than brand name, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives are as follows:

Software	3 - 5 years
Market and customer related	10 years

Amortization methods, useful lives and residual values are reviewed at each year-end and adjusted if appropriate.

f. Leased assets

(i) Leased assets

Assets held by the Group under leases which transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Group's statement of financial position.

Notes

25. Significant accounting policies, continued

f. Leased assets, continued

(ii) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

g. Inventories

Inventories mainly consist of oil, spare parts and other supplies.

h. Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security.

The Group considers evidence of impairment for trade receivables at both a specific asset and collective level. All individually significant trade receivables are assessed for specific impairment. All individually significant trade receivable found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Trade receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) 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, the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated annually at the same time.

The recoverable amount of an asset 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Notes

25. Significant accounting policies, continued

(ii) Non - financial assets, continued

h. Impairment, continued

Impairment losses recognized 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 amortization, if no impairment loss had been recognized.

i. Employee defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

j. Provisions

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

k. Revenue

Revenue from sale of services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of service performed. Revenue is not recognized if there is uncertainty about collection or related cost.

Revenue from logistics and storage service is recognized in profit or loss at the date of delivery to the customer, which is the time of transfer of risk to the customer.

l. Finance income and finance expense

Finance income comprises interest income on funds invested and dividend income. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings.

Borrowing costs that are not directly attributable to the acquisition, construction or production of an qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on net basis as finance income or finance expense.

m. Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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 recognized in respect of 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 recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Notes

25. Significant accounting policies, continued

m. Income tax, continued

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 and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. 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 realized.

n. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of 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 shares outstanding for the effects of all dilutive potential shares.

o. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance.

p. New IFRS standards, interpretations and amendments to standards

A number of new standards are effective for annual periods beginning on or after 1 January 2017. The Group has not early applied the following new or amended standards in preparing these Consolidated Financial Statements.

As part of the International Accounting Standards Board Disclosure Initiative, amendments to IAS 7 require disclosure that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

IFRS 9 replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. The new standard will not have material effects on the Consolidated Financial Statements.

IFRS 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. Eimskip has assessed the impact of IFRS 15. The current practices for recognizing revenue have shown to comply in all material respects with the concepts and principles of IFRS 15 and the impact on the financial statements is considered immaterial.

In January 2016, the IASB issued IFRS 16 *Leases*. The standard is to replace the current standard IAS 17 with effective date 1 January 2019. According to the new standard, the lessee must report all leases and associated contractual rights on the balance sheet. The current requirement to differentiate between finance leases and operating leases will therefore no longer apply for lessees. Eimskip has started assessing the impacts of IFRS 16. As can be seen in note 19, Eimskip has a non-cancellable operating lease commitment amounting to EUR 11.2 million. Eimskip is still assessing if its time-chartered vessels are subject to IFRS 16 as well as its container fleet which is not included in the operating lease commitment. Eimskip will likely use the partial retrospective application which means that comparatives do not need to be restated.

Quarterly statements - unaudited

Year 2017	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017
Revenue	143,499	170,722	173,868	175,884	663,973
Expenses	134,189	154,019	154,581	163,986	606,775
Operating profit, EBITDA	9,310	16,703	19,287	11,898	57,198
Depreciation and amortization	(7,371)	(7,485)	(7,561)	(7,731)	(30,148)
Results from operating activities, EBIT	1,939	9,218	11,726	4,167	27,050
Net finance income (expense)	(1,510)	(2,836)	(1,650)	(1,240)	(7,236)
Share of loss of equity accounted investees	(108)	(65)	(20)	(146)	(339)
Net earnings before income tax	321	6,317	10,056	2,781	19,475
Income tax	(128)	(1,383)	(1,264)	104	(2,671)
Net earnings	193	4,934	8,792	2,885	16,804
Year 2016	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016
Revenue	113,253	126,102	134,070	140,497	513,922
Expenses	103,621	109,924	116,310	130,592	460,447
Operating profit, EBITDA	9,632	16,178	17,760	9,905	53,475
Depreciation and amortization	(6,365)	(6,797)	(6,917)	(7,998)	(28,077)
Results from operating activities, EBIT	3,267	9,381	10,843	1,907	25,398
Net finance income (expense)	(1,365)	706	(369)	683	(345)
Share of earnings (loss) of equity accounted investees	100	115	196	(201)	210
Net earnings before income tax	2,002	10,202	10,670	2,389	25,263
Income tax	(157)	(1,447)	(1,289)	(475)	(3,368)
Net earnings	1,845	8,755	9,381	1,914	21,895

Corporate Governance Statement

About Eimskip

Eimskipafélag Íslands hf. (Eimskip) is a leading transportation company in the North Atlantic with connections to international markets and is specialized in worldwide freight forwarding services, with the vision of providing excellence in transportation solutions and services. Eimskip specializes in shipping, logistics and supply chain management and offers its customers solutions on land, sea and air with special emphasis on the handling and storing of any type of temperature-controlled cargo, frozen or chilled, and dry cargo.

Corporate Governance

With this statement on the Corporate Governance of Eimskip it is declared that the Company is complying with the accepted practices in the 5th edition of Corporate Governance Guidelines, issued by the Iceland Chamber of Commerce, SA - Business Iceland and Nasdaq Iceland.

Corporate Governance practices are designed to ensure open and transparent relationship between the Company's management, its Board of Directors, its shareholders and other stakeholders. The Corporate Governance in Eimskip is also designed to ensure sound and effective control of the Company's affairs and a high level of business ethics.

The Corporate Governance Statement of Eimskip is accessible on the Company's website, www.eimskip.is, and is published in a special chapter in the Company's Financial Statements.

The Corporate Governance Guidelines are accessible on www.corporategovernance.is.

Laws and regulations

Eimskip is a limited liability company that is governed by Act no. 2/1995 on Limited Liability Companies (Company Act). Acts are accessible on the Parliament's website, www.althingi.is.

Eimskip's Financial Statements

Eimskip's financial year is the calendar year. The Company's Financial Statements are accessible on the Company's website, www.eimskip.is.

Shareholder Relations

The supreme authority of the Company is in the hands of the shareholders who attend shareholders' meetings at least once a year. Share register is held at the Company's headquarters where it is available to shareholders.

Company news that are considered to affect Eimskip's share price are published through the company news release distribution network of Nasdaq Nordic and on the Company's IR website, www.eimskip.is/investors. Other news are published on the Company's website, www.eimskip.is.

Proposals or questions from shareholders to the Board of Directors shall be sent to investors@eimskip.is and compliance@eimskip.is.

The Board of Directors of Eimskip

The Board of Directors holds supreme authority between shareholders' meetings. It shall ensure that the Company's organization and operations are in good order. It shall promote the development and long-term performance of the Company and supervise its operations. The Board of Directors has statutory role which it is responsible for, unless the Board grants permission by law to transfer authority by delegation.

Board meetings are called with one week notice. A meeting schedule is made for the financial year in advance. The invitation contains the agenda for the meeting. The CEO and the CFO attend Board meetings and other members of the Executive Management attend as required. In 2017, the total number of Board meetings was 14 and the Board was competent to make decisions in all meetings.

Corporate Governance Statement

The Board consists of five Directors and two alternate Directors and they are all elected annually at the Annual General Meeting. Those who intend to run for the Board of Directors shall notify the Board of Directors of their candidacy at least five days before a shareholders' meeting. The majority of the Directors of the Board are independent of the Company and its day-to-day management, and four Directors are independent of the Company's significant shareholders. Both of the alternate members of the Board are either not independent of the Company or its significant shareholders. The Board evaluates whether Directors are independent of the Company and its significant shareholders. Moreover, the Board evaluates the independence of new Directors before the Company's Annual General Meeting and makes available to shareholders the result of its evaluation.

Annually, the Board of Directors conducts an assessment of its work, size, composition and procedures and also evaluates the work of the Company's President and CEO, the Company's operations and development and whether it is in line with the Company's objectives. The assessment entails e.g. evaluation of the strengths and weaknesses of the Board's work and practices and takes into consideration the work components the Board believes may be improved. The evaluation is built on self-assessment, but the assistance of outside parties may be sought as appropriate. The evaluation includes an examination of whether the Board has operated in accordance with its Rules of Procedure and how the Board operates in general. Examination must be made whether important matters relating to the Company have been adequately prepared and if sufficient time is provided for discussions within the Board. Additionally, individual Directors must be considered with respect to both attendance and participation in meetings. The assessment for the financial year 2017 was concluded in February 2018.

Main responsibilities of the Board of Directors

- To hold supreme authority between shareholders' meetings, promote the development and long-term performance of the Company and supervise its operations. The Board shall regularly assess the performance of the Company's executive directors and how the Company's policies are implemented.
- To take the initiative, together with the CEO, on formulating policies and setting goals and risk parameters for the Company, both in the short and long term.
- To establish an active system of internal controls. This means, among other things, that the arrangement of the internal controls system shall be formalized, documented and its functionality verified regularly.
- To ensure that the Company's operations are in conformity with existing laws and regulations.
- To handle the recruitment and dismissal of the Company's CEO.

Extraordinary or major matters which require the approval of four out of five Directors and are therefore not a part of the CEO's day-to-day operations are defined in the Rules of Procedure for the Board of Directors.

Rules of Procedure for the Board of Directors

The Board of Directors has established its Rules of Procedure which were amended and approved at a Board meeting on 23 February 2017. A copy can be obtained from the Company's website, www.eimskip.is.

The Board of Directors has appointed two subcommittees, Audit Committee and Remuneration Committee.

The principal duties of the Audit Committee are to review all financial information and procedures regarding information disclosure from day-to-day management and the Company's independent auditors and to ensure the independence of the Company's independent auditors. The role and main responsibilities of the Audit Committee are set out in its rules of procedure.

Members of the Audit Committee are Marc Jason Smernoff, Chairman, Lárus L. Blöndal and Ólafur Viggó Sigurbergsson. In 2017, the Audit Committee held a total of four meetings.

The role of the Remuneration Committee includes preparing the Company's remuneration policy and ensuring its enforcement and negotiating with the CEO on wages and other employment terms. The role and main responsibilities of the Remuneration Committee are set out in its rules of procedure.

Members of the Remuneration Committee are Hrund Rudolfsdóttir, Chairman, Richard Winston Mark d'Abo and Marc Jason Smernoff. The Remuneration Committee held two meetings in 2017.

Corporate Governance Statement

Nomination Committee

The Board of Directors has not proposed to a shareholders' meeting to appoint a Nomination Committee with the role of proposing candidates to serve as Directors on the Board. The Board of Directors receives and reviews candidates' applications in accordance with the Company Act.

The Board of Directors

Richard Winston Mark d'Abo, Chairman of the Board

Richard was born in 1956 and lives in the United States. He is a Partner in The Yucaipa Companies, LLC. Since rejoining Yucaipa in 2004, he has been involved with all the acquisition of Americold realty Trust, building it into the largest cold storage company in the world. Richard has ten years of banking experience and 28 years of experience in private equity. From 1995 to 2003 he was involved in various activities in investment banking and private equity investing, co-founding and serving as the Director of Apogee Electronics, Inc. Richard was a Partner in The Yucaipa Companies, LLC, from 1988 to 1994. During this time he was a key contributor to the acquisitions of Cala Foods, ABC markets, Boys Markets, Almacs, Bell Markets, Alpha Beta and Food4Less. From 1992 to 1994 Richard served as a director of Food4Less Supermarkets. From 1978 to 1987 Richard worked at Union Bank and was involved in financing multiple leveraged and management buyouts. He is currently a board member of A-Tango ehf., Americold Realty Trust, Apogee Electronics, LLC and NPE Holdings, LLC. Richard was previously a board member of VersaCold International Corporation. He pursued a degree in Finance from the University of South California from 1975 to 1977. Richard has been on the Board of Directors since 23 September 2009 and is currently a member of the Remuneration Committee. He does neither own shares nor share options in the Company but is not independent of Yucaipa Funds, which own, in total, 50.6 million shares in the Company.

Víglundur Thorsteinsson, Vice-Chairman of the Board

Víglundur was born in 1943 and lives in Iceland. He has been active in Icelandic industry for more than 50 years and has been a board member of various companies and organizations, such as SI (the Federation of Icelandic Industries), SA – Business Iceland (the Confederation of Icelandic Employers) and the Pension Fund of Commerce. Víglundur is currently the Chairman of Lindarflöt ehf., a private holding company, and an alternate board member of Fasteignaleigan Haunprýdi ehf. He has a Cand.jur. degree from the University of Iceland. Víglundur has been on the Board of Directors since 3 April 2013, is an independent Board member and does neither own shares nor share options in the Company.

Helga Melkorka Óttarsdóttir

Helga was born in 1966 and lives in Iceland. She is a Managing Partner at LOGOS Legal Services slf. She served as an attorney in an independent law practice from 1999 to 2000 and was a lawyer at the EFTA Surveillance Authority in Brussels from 1994 to 1999. Helga is currently a board member of Iceland Chamber of Commerce and was an Ad Hoc College member of the EFTA Surveillance Authority from 2004 to 2014. She has previously been a board member of the Icelandic Bar Association and an adjunct in European Law at both the University of Reykjavík and the University of Iceland. Helga has been a Supreme Court Attorney since 2011 and a District Court Attorney since 1999. She took her LL.M. degree in European Law and International Law at Heidelberg in Germany in 1994 and graduated with a Cand.jur. degree from the University of Iceland in 1991. Helga has been on the Board of Directors since 3 April 2013, is an independent Board member and does neither own shares nor share options in the Company.

Hrund Rudolfsdóttir

Hrund was born in 1969 and lives in Iceland. She is the CEO of Veritas Capital ehf. Previously she was Corporate Director of Human Resources at Marel hf. from 2009 and Director of Operations and Investments at Moderna Finance ehf./Milestone ehf. from 2007 to 2009. Hrunnd was CEO of L&H Holding, CEO and Chief of Operations of Lyf & heilsa hf. from 2001 to 2006. She is currently the Chairman of Stefmir hf. and is a board member of Iceland Chamber of Commerce. Hrunnd took her Master's degree in International Marketing and Management at Copenhagen Business School in 2000. She also earned a Cand.Oecon. degree at the University of Iceland in 1994. Hrunnd has been on the Board of Directors since 3 April 2013 and currently serves as the Chairman of the Remuneration Committee. She is an independent Board member and does neither own shares nor share options in the Company.

Corporate Governance Statement

Lárus L. Blöndal

Lárus was born in 1961 and lives in Iceland. He is a Supreme Court Attorney and a Partner at Juris Law Offices. Lárus was a Partner at Almenna lögfræðistofan from 1990 to 2008. Lárus is currently a board member of Orkusalan hf., RARIK Orkuthróun ehf. and the Chairman of the board of ISFI (Icelandic State Financial Investments). He has been a member of the Competition Appeals Committee since 2000 and its Vice-Chairman since 2009 and a member of the National Olympics and Sport Association's executive committee since 2001, becoming its Vice-President in 2006 and its President in 2013. He has previously been a board member of the Icelandic Bar Association, the University of Iceland's Human Rights Institute, the University of Iceland's Research Centre in Environmental and Natural Resources Law, Hótel Borg ehf., Fastus ehf., the Housing Financing Fund, Chairman of the National Olympic and Sport Association's legal committee, and a member of various other official committees and boards. Lárus has been a Supreme Court Attorney since 1998 and a District Court Attorney since 1990. He graduated with a Cand.jur. degree from the University of Iceland in 1987. Lárus has been on the Board of Directors since 27 March 2014 and is currently a member of the Audit Committee. He is an independent Board member and owns 3,190 shares in the Company but no share options.

Jóhanna á Bergi, Alternate Member of the Board

Jóhanna was born in 1970 and lives in the Faroe Islands. She is the CEO of Atlantic Airways Ltd. Jóhanna was the CEO of P/f Faroe Ship, Eimskip's subsidiary in the Faroe Islands, from 2006 to 2015, Sales Director of JFK and Kósin Seafood from 1998 to 2006 and Sales Manager of Faroe Seafood France from 1994 to 1998. She is currently a board member of the Faroese Confederation of Sports and Olympic Committees, Nordoyatunnilin, Föroya Grunnurin and Visit Faroe Islands. Jóhanna has a Master's degree in Management from Robert Gordon University in the UK. She further holds an EE degree from the Danish School of International Marketing and Export. Jóhanna has been an alternate member of the Board since 3 April 2013, is an independent Board member and does neither own shares nor share options in the Company.

Marc Jason Smernoff, Alternate Member of the Board

Marc was born in 1973 and lives in the United States. He is currently the Executive Vice President and Chief Financial Officer for Americold Realty Trust (NYSE: COLD). He was Director of Private Equity of The Yucaipa Companies, LLC from 2004 to 2014. Marc was Manager of Transaction Services at KPMG from 2003 to 2004 and an Associate of Investment Banking at Wells Fargo Securities, LLC from 2000 to 2002. He was Manager of Corporate Finance at Ernst & Young, LLP from 1997 to 2000 and a staff Accountant of Assurance & Advisory Business Services at Ernst & Young, LLP from 1995 to 1997. He has previously been a Board member of Eimskipafélag Íslands hf., Americold Realty Trust (board of Trustees) and La Canada Flintridge Educational Foundation. Marc received his Master's degree in Business Administration from the UCLA Anderson School of Management in 2005 and is a Certified Public Accountant. He furthermore holds a Bachelor's degree in Business Economics from the University of California, Santa Barbara, which he received in 1995. Marc has been on the Board of Directors since 23 September 2009 and currently serves as the Chairman of the Audit Committee and a member of the Remuneration Committee. He does neither own shares nor share options in the Company but is not independent of Yucaipa Funds, which own, in total, 50.6 million shares in the Company.

The Chief Executive Officer

The Company's CEO is responsible for the day-to-day operations, in accordance with law, regulations and the Company's Articles of Association and follows the policies and instructions laid down by the Board. The CEO must at all times conduct his work with integrity and take account of the Company's interests. Day-to-day operations do not include matters which are unusual or of great significance. The CEO shall make sure that the Company's accounts are kept in accordance with law and practice and that the Company's assets are kept in a secure manner. The CEO is obligated to abide by all instructions of the Board of Directors and shall give the auditor any information requested. The CEO does not have the authority to make decisions concerning any matters that are assigned to others by law or are reserved to the Board under its Rules of Procedure. The CEO shall ensure that Directors of the Board are regularly provided with accurate information on the Company's finances, development and operations to enable them to perform their duties and the information shall be in the form and of the quality determined by the Board. The information shall be available when needed and as up-to-date and accurate as possible. The CEO is to acquaint the Board with all major issues involving the operations of the Company or its subsidiaries and is to attend the Board meetings. He participates in the Boards of the subsidiaries within the group.

Corporate Governance Statement

Gylfi Sigfússon, President and Chief Executive Officer

Gylfi was born in 1961. He has worked for Eimskip and related companies since 1990 and as President and CEO from 2009. Before that he was CEO of HF. Eimskipafélag Íslands, now A1988 hf., from 2008 to 2009. Gylfi held the position of CEO of Eimskip USA, Eimskip Logistics and Eimskip Canada from 2006 to 2008, overseeing all of Eimskip's transport operations in USA and Canada. Gylfi was the CEO of Eimskip Logistics in USA from 2000 to 2006. He was Executive Vice President of Ambrosio Shipping in USA from 1996 to 2000 and Executive Vice President of Marketing and Operations at Tollvörugeymslan hf., now TVG-Zimsen ehf., from 1990 to 1996. He is a board member or CEO, or both, of various subsidiaries of Eimskipafélag Íslands hf. Gylfi is a board member of the Iceland Chamber of Commerce, the American-Icelandic Chamber of Commerce, the Icelandic-Canadian Chamber of Commerce, the Greenland-Icelandic Chamber of Commerce and the Icelandic-Arctic Chamber of Commerce. He earned a Cand.Oecon. degree from the University of Iceland in 1990. Gylfi owns 9,615 shares in the Company but does not have a share option agreement with the Company.

The Executive Management

The Executive Management of Eimskip consists of the Chief Executive Officer and the Directors of Finance and Operation, International Operations and Logistics, Human Resources and Marketing, North Atlantic Container Liner Services and Iceland Domestic Operations and Services. All the executives have an extensive experience within the Company.

Hilmar Pétur Valgardsson is the Chief Financial Officer, Bragi Thór Marinósson is the Executive Vice President of International Operations and Logistics, Elín Hjálmsdóttir is the Vice President of Human Resources and Marketing, Matthías Matthíasson is the Vice President of North Atlantic Container Liner Services and Guðmundur Nikulásson is the Vice President of Iceland Domestic Operations and Services.

Further information on the Executive Management is provided in the Annual Report on the Company's website, www.eimskip.is.

Internal Control and Risk Management

The role of internal control is to facilitate the management of an operation and it has been defined as a process which is shaped by a company's Board of Directors, the management team and other employees. The purpose of internal control is to build foundation for the company to reach success and efficiency in its operations, reliability of financial information and consistency with laws and regulations.

Risk management is the process of analyzing and assessing the risk factors which could prevent the Company from achieving its set goals. It also includes that remedial action is taken to minimize the anticipated effects of such risk factors.

Eimskip's internal control and risk management procedures regarding financial processes is designed to minimize the risk of material misstatements. The Company does not have an internal audit function, but it uses internal control systems that are monitored by the Audit Committee.

An independent auditing firm is elected at the Annual General Meeting each year. The auditors are supposed to review the Company's accounting records and material related to the Company's operations and financial position and they are to have access to the Company's books and documents at all times. They must examine the Company's consolidated financial statements in accordance with international standards on auditing. Significant findings regarding accounting and internal control deficiencies are reported to the Board of Directors through the Audit Committee. Independent auditors are not allowed to own shares in the Company.

The Company goes through a detailed strategic and budgeting process each year and a strategy and budget report is prepared. The Board of Directors approves the Company's strategy and budget each year. Deviations from the strategy and budget are carefully monitored on a monthly basis.

Active risk management plays an important role in Eimskip to ensure stable operations and earnings. The risk management policy is aimed at minimizing potential negative effects on operations and earnings from marketing, operational and financial activities and to keep risks at acceptable levels.

Corporate Governance Statement

The Board of Directors regularly communicates with the CEO regarding the identification of, description of and response to business risks which the Company may be faced with. Risk management within Eimskip is governed by the Board of Directors, while the Audit Committee is responsible for its review on a regular basis. The Executive Management is responsible for identifying material risks and developing the Company's risk management strategy. The Company's risk exposure is discussed at Board meetings and its risk management and risk factors are discussed in the Annual Report.

Eimskip monitors its financial risk factors and has defined treasury policies and procedures which, among other, sets acceptable risk limits and stipulates how to identify, measure and manage financial risk exposure. The Company has in place a financial reporting and internal control manual to which the group reporting entities must adhere.

Information on violation of rules determined by the applicable authority

The Competition Authority in Iceland has a case concerning the Company in process, of which the outcome is not yet determined.

Corporate Social Responsibility

Eimskip is a registered participant of the UN Global Compact, the United Nation's initiative for social responsibility with respect to human rights, labor, environment and anti-corruption. With its participation, the Company has committed to manage its business operations so that the UN Global Compact and its Ten Principles become a part of the Company's strategy, culture and day-to-day operations. The Company has also committed to advocate the UN Global Compact and its Ten Principles through available communication channels and communicate annually on implementation efforts.

Eimskip's Corporate Social Responsibility (CSR) Policy is based on the Nasdaq ESG Reporting Guide, published in March 2017. The Nasdaq voluntary reporting guide focuses on 33 environmental, social and governance (ESG) performance indicators.

CSR Policy

Eimskip has for over a century offered reliable transportation services and the Company's vision is to reach excellence in transportation solutions and services. Eimskip focuses on creating shared value for its shareholders, customers, employees, society and other stakeholders.

Environment

Eimskip respects its environment and seeks to limit its impact on the ecosystem and reduce its environmental footprint.

Society

Eimskip offers employees equal opportunities in a safe and healthy working environment and endeavors to be a good corporate citizen, recognizing its responsibility to work in partnership with the communities in which it operates.

Governance

Eimskip strives to ensure open and transparent relationship between the Company's management, its Board of Directors, its shareholders and other stakeholders.

In 2018, Eimskip will continue working on its Corporate Social Responsibility. The focus will be on further implementing the Company's CSR policy within the group and on CSR measurements and goals. Also on further reduction and publishing of the Company's ecological footprint.

To support global and local environmental initiatives, Eimskip signed the Reykjavík Declaration on Climate Issues in November 2015 and has in 2016 been working systematically on reducing its ecological footprint.

Code of Conduct

The Board of Directors approved a revision of the Company's Code of Conduct in February 2018. The Code of Conduct closely links to the Company's values: Achievement, Cooperation and Trust. The Code is also based on Eimskip's aim to secure good return for shareholders with profitable growth, create value for customers with outstanding solutions and services, be an outstanding workplace for employees with great team spirit and ambition and show concern for society with social responsibility and reduced ecological footprint.

Eimskip's Code of Conduct focuses on Human Resources, the Market and on Social Responsibility. It includes the Company's Human Rights Policy and its Anti-Corruption and Bribery Policy. The Code of Conduct is accessible on the Company's website, www.eimskip.is.

Non-Financial Reporting

About Eimskip

Eimskipafélag Íslands hf. (Eimskip) is a leading transportation company in the North Atlantic with connections to international markets and is specialized in worldwide freight forwarding services, with the vision of providing excellence in transportation solutions and services. Eimskip specializes in shipping, logistics and supply chain management and offers its customers solutions on land, sea and air with special emphasis on the handling and storing of any type of temperature-controlled cargo, frozen or chilled, and dry cargo.

Eimskip was founded in 1914 and is a publicly traded company with its shares listed at Nasdaq Iceland.

Employees

Eimskip has been growing in recent years, both organically and with external growth. It currently runs a network of 63 offices in 20 countries in four continents, operates 22 vessels and has about 1,850 employees. The employee group is diverse, with a variety of backgrounds as regards education and experience, but everyone works together with the aim of providing customers with outstanding services.

Eimskip respects human rights and operates according to its various policies related to employees' rights. The main policies are Human Resource Policy, Salary Policy, Equal Opportunities Policy, Health Policy, Occupational Safety and Security Policy and Prevention Policy.

Surveys among Eimskip's employees have been performed on a regular basis for many years to measure job satisfaction, employee engagement and other human resource indicators. The scores of these surveys have been strong and further improving in recent years and show that the Company's employees are generally satisfied and engaged in their jobs.

Corporate Social Responsibility

Eimskip is a registered participant of the UN Global Compact, the United Nation's initiative for social responsibility with respect to human rights, labor, environment and anti-corruption. With its participation, the Company has committed to manage its business operations so that the UN Global Compact and its Ten Principles become a part of the Company's strategy, culture and day-to-day operations. The Company has also committed to advocate the UN Global Compact and its Ten Principles through available communication channels and communicate annually on implementation efforts.

Eimskip's Corporate Social Responsibility (CSR) Policy is based on the Nasdaq ESG Reporting Guide, published in March 2017. The Nasdaq voluntary reporting guide focuses on 33 environmental, social and governance (ESG) performance indicators.

CSR Policy

Eimskip has for over a century offered reliable transportation services and the Company's vision is to reach excellence in transportation solutions and services. Eimskip focuses on creating shared value for its shareholders, customers, employees, society and other stakeholders.

Environment

Eimskip respects its environment and seeks to limit its impact on the ecosystem and reduce its environmental footprint.

Society

Eimskip offers employees equal opportunities in a safe and healthy working environment and endeavors to be a good corporate citizen, recognizing its responsibility to work in partnership with the communities in which it operates.

Governance

Eimskip strives to ensure open and transparent relationship between the Company's management, its Board of Directors, its shareholders and other stakeholders.

Environment

In 1991, Eimskip became one of the first companies in Iceland to establish an environmental policy as a main driver for actions for improved ecological footprint. Since then, the challenges in this field have developed very fast and the transportation industry, as well as others, realizes how important environmental issues are for the world today.

For Iceland, which bases large part of its economic foundation on harvesting natural resources from the ocean in a sustainable way, the changes associated with global warming and pollution of the ocean leave all the key components of its modern economy utterly exposed, in addition to threatening the quality of life for future generations. To support global and local environmental initiatives, Eimskip signed the Reykjavík Declaration on Climate Issues in November 2015. The agreement includes reducing greenhouse gas emission, reducing waste and monitoring the results of the measures and regularly publicizing the information.

Non-Financial Reporting

The Company respects the environment and recognizes the effects that climate change could have on society and its business activities and the need for a low-carbon economy. Minimization of the environmental load from its operations focuses on achieving full clarity regarding emissions and waste from each of the emitting sources in the supply chain. To make this possible, use of data and analytics has been stepped up in recent years, giving Eimskip a better overview of its ecological footprint and reduction opportunities. The Company uses its own electronic Environmental Management System that is linked to all major assets in the supply chain, streaming reliable and transparent information on its environmental matters. Digitization of emission and waste-registration data from the supply chain enables continuous monitoring of measures and provide reliable and transparent information on the status.

Eimskip defines its ecological footprint as a combination of carbon footprint and waste disposal. The operation of the Company's vessels is the main contributor to its carbon footprint. The calculation of the Company's carbon footprint is presented as carbon intensity per transported unit in kg CO₂ equivalent (e) per ton of transported units.

The accumulated reduction of Eimskip's carbon footprint in the years 2016 and 2017 was 12.3% compared to the base year 2015, calculated per ton of transported units. The Company's aim is to further reduce its footprint in the coming years, with a goal of 19% accumulated reduction in 2022 and 40% reduction in 2030 based on 2015 numbers. This goal of total reduction is comparable with Iceland's decision of joining the European Union and Norway in their common goal of 40% reduction of emission in 2030.

In 2017, Eimskip published an efficient transport calculator that provides the Company's customers with carbon footprint related to their transport.

Code of Conduct

The Board of Directors approved a revision of the Company's Code of Conduct in February 2018. The Code of Conduct closely links to the Company's values: Achievement, Cooperation and Trust. The Code is also based on Eimskip's aim to secure good return for shareholders with profitable growth, create value for customers with outstanding solutions and services, be an outstanding workplace for employees with great team spirit and ambition and show concern for society with social responsibility and reduced ecological footprint.

Eimskip's Code of Conduct focuses on the Workplace, the Market and on Corporate Social Responsibility. It includes the Company's Human Rights Policy and its Anti-Corruption and Bribery Policy.

Human Rights Policy

Eimskip respects human rights. The objective of the policy is twofold:

1. To secure the human rights of Eimskip's employees
2. To ensure that Eimskip complies with laws and regulations on human rights

Eimskip commits itself to complying with all applicable laws and regulations on human rights concerning freedom of association, forced and compulsory labor, child labor and discrimination in respect of employment and occupation.

Eimskip encourages all its employees to report any suspected human rights violation with the Company.

The Company requires its suppliers and subcontractors to respect human rights.

Anti-Corruption and Bribery

The Board of Directors approved a revision of the Company's Code of Conduct in February 2018. The Code of Conduct closely links to the Company's values: Achievement, Cooperation and Trust. The Code is also based on Eimskip's aim to secure good return for shareholders with profitable growth, create value for customers with outstanding solutions and services, be an outstanding workplace for employees with great team spirit and ambition and show concern for society with social responsibility and reduced ecological footprint.

Non-Financial Reporting

Due Diligence

Eimskip and its vessels must comply with the International Safety Management (ISM) Code. The Code is an intrinsic part of the International Maritime Organization's (IMO) SOLAS Convention in its efforts to ensure, maintain and effectuate safety for the seafarers as well as simultaneously providing an accidental pollution free zone for the sector entirely. External audits are performed to verify the ISM Code compliance.

The company Klappir Green Solutions hf. works with Eimskip on environmental management and certifies the Company's environmental management solution. This is a digital data collection and environmental compliance solution, covering energy and waste management of vessel fleet, truck fleet, terminal assets, warehouses and office space. The assessment covers:

- Energy management compliant to MARPOL Annex I, Annex VI, EU MRV and local law including data transparency, accuracy and accountability on fuel receiving and consumption of vessel fleet, truck fleet and terminal assets and data transparency, accuracy and accountability on electricity use and use of district heating for terminal assets, warehouses and offices.
- Waste management compliant to MARPOL Annex V and local law including data transparency, accuracy and accountability on waste sorting and disposal of vessel fleet and data transparency, accuracy and accountability on waste sorting, recycling and disposal of terminals, warehouses and offices.
- Water management compliant to local law including data on cold water consumption based on manual readings.

Eimskip has a First Response Team, which duty is to respond to various accidents on sea and land. The team's purpose is to ensure and assist on proper first response and limit accidents to people and damages to properties and the environment.

The Company's Loss Prevention Team meets regularly to investigate losses, damages and accidents and follow up on necessary changes and/or improvements.

Eimskip is a registered participant of the United Nations Global Compact and has committed to communicate annually on the implementation efforts of the UN Global Compact's Ten Principles.

The Company's CSR Policy is based on the Nasdaq ESG Reporting Guide, which focuses on 33 environmental, social and governance (ESG) performance indicators.