

## Eimskip Reports EUR 101 million loss in Q2

- Asset write-down related to Innovate and high finance costs -
  - Revenue growth and EBITDA in line with expectations -
- Transportation business performance in line with expectations -
  - Continued strong contribution from Versacold Atlas -

**Reykjavik, Iceland 19 June 2008** - Hf. Eimskipafelag Islands (OMX: HFEIM), the international transportation company, today announced results for Q2 ended 30 April 2008. Today's results include the write-off related to Innovate Holdings in the UK, announced on June 11th 2008. Innovate's financials are reported as discontinued operations in the financial statements attached.

### Highlights

- **Total revenue** in the second quarter increased by 46.3% to EUR 379.9 million, reflecting strong performance in transportation services in the Baltic and Russian regions, in addition to continued solid performance in the US, Canada and the North-Atlantic region. Underlying Group revenue<sup>1</sup> for the quarter increased by around 8%. Revenues from Versacold Atlas are in line with expectations. Revenue from **Shipping Services** was EUR 153.5 million and EUR 226.0 for **Logistics Services**
- **Operating expenses** totalled EUR 370.5 million in Q2.
- **EBITDA** in Q2 was EUR 40.0 million, representing an 11.2% EBITDA margin.
- **Finance cost** of EUR 52.5 million in Q2 2008, including negative currency impact of EUR 19.7 million.
- **A net loss** of EUR 100.8 million was recorded in the Q2, compared to a EUR 9.8 million loss in Q2 2007. The loss excluding the write-off of Innovate is EUR 32.9 million.
- **The board of directors** has announced its intention to review strategic alternatives for Versacold Atlas to enhance shareholder value and significantly reduce the Group's debt.

EUR million	Q2 2008	Q2 2007	H1 2008	H1 2007
Total revenues	379.9	259.6	759.8	498.5
Total expenses	-370.5	-244.1	-734.0	-481.2
EBITDA	40.0	29.2	82.2	42.6
EBITDA %	10.5%	11.2%	10.8%	8.5%
Profit from continuing operations	-32.9	4.6	-68.9	-5.0
Net loss	-100.8	-9.8	-139.7	-5.4

**Eimskips President & CEO, Gylfi Sigfusson, commented:**

"The second quarter was another solid quarter in revenue growth and margins, and was in line with our expectations. We saw a strong performance from our core transportation businesses in Russia, and the Baltic and North-Atlantic regions, as well as solid performances from our cold store business in the US and Canada.

Despite the strong underlying performance of our business, the write-off related to Innovate in the UK had a significant impact on our bottom line, which negatively impacted our financing costs. The Board of Eimskip has announced its intention to significantly improve Eimskip's financial strength before year-end and will evaluate strategic alternatives for Versacold Atlas. We are committed to bring our equity ratio above the 25% mark by the end of the year. This will lead to the underlying aspects of our business to become more visible and lower finance costs."

<sup>1</sup> Footnote: Pro forma underlying growth reflects underlying growth of the Group as it was in Q2 2008 at constant exchange rates.

## Financial highlights - second quarter 2008

---

### Revenue

Total revenue in the second quarter 2008 (ending April 30<sup>th</sup>) grew by 46.3% to EUR 379.9 million (Q2 2007: EUR 259.6 million). This increase is partly due to Versacold entering in the latter part of 2007, and a good performance in the company's main business areas. In the first half, revenue totalled EUR 759.8 million (1H 2007: EUR 498.5 million), up 52.4% from 2007. On June 11<sup>th</sup>, the write off of Innovate was announced. As previously stated, Innovate's financials are classified as a discontinued operation in the financial statements. Innovate's reported revenue in the second quarter totalled EUR 63.5 million.

**Revenue from Shipping Services** increased to EUR 153.5 million (Q2 2007: EUR 179.3 million), representing an underlying year over year growth of 7.1% in the quarter. For the first half of 2008, revenues amounted to EUR 302.7 million (1H 2007: EUR 310.3 million).

**Revenue from Logistics Services** consists of temperature controlled logistics and operation of cold stores in the US, Canada, The Netherlands, Argentina, Australia, New Zealand and China.

The revenue from the logistics services was to EUR 226.0 million, with a strong performance from Versacold Atlas. The revenue comes from Versacold Atlas (The US, Canada, Australia, New Zealand and Argentina), Daalimpex (The Netherlands) and Eimskip China.

### Operating expenses

Operating expenses in the second quarter were EUR 360.1 million (Q2 2007: EUR 235.5 million) representing 52.9% increase from 2007. The cost/income ratio has increased and is 94.8% compared to 90.7% in Q2 2007. In the first six months, operating expenses totalled EUR 716.3 million (1H 2007: EUR 463.9 million), 94.3% of the total revenue. The higher cost-ratio can be explained by the sale and leaseback of assets in North-America, as well as currency exchange development.

### EBITDA & EBIT

Earnings before interest, tax, exceptional items, depreciation and goodwill amortisation (EBITDA) are EUR 40.0 million for the quarter (Q2 2007: EUR 27.7 million). In the first half of the operating year, EBITDA amounted to EUR 82.2 million (1H 2007: EUR 42.6 million). The EBITDA margin was 10.5% in the quarter and 10.8% in the first half (1H 2007: 8.5%).

Earnings before interest and tax (EBIT) were 2.5% of income, standing at EUR 9.3 million for Q2 (Q2 2007: EUR 15.5 million) and reached EUR 25.7 million in the first six months. EBITDA ratios are in accordance to expectations, but a higher EBITDA ratios in the quarter in the light of issued goals can be largely explained by the delay in sales of assets in the US and Canada. Innovate is separated from the EBITDA calculations.

### Financial items

Financial expenses totalled EUR 52.5 million in the quarter (Q2 2007: EUR 13.3 million), of which EUR 32.7 million was interest expense (Q1 2008: EUR 38.2 million). Financial expenses in the first half of the financial year amounted to EUR 108.7 million (1H 2007: EUR 29.0 million). Currency exchange loss in the quarter amounted to EUR 19.7 million, compared to a currency exchange loss of EUR 18.0 million in Q1 2008. The currency loss can be explained by a stronger EUR versus major currencies, as well as the USD standing stronger against the CAD.

### Results before and after tax

The loss before taxes totalled EUR 42.8 million (Q2 2007: EUR 2.4 million gain). Net loss was EUR 100,8 million in the quarter (Q2 2007: EUR 0.2 million gain) and EUR 139,7 million in the first six months. Excluding the Innovate write-off, the total loss realized in Q2 2008 was EUR 32.9 million (Q2 2007: EUR 4.6 million gain) and EUR 68.9 million in the first half of the year (1H 2007: EUR 5 million loss).

While revenue and EBITDA margin are in line with management's expectations, the Group's net loss is significantly greater than expected. The net loss is attributable to the Innovate write-off in the UK, higher than expected financing costs and evaluation of stocks of subsidiaries.

Income statement (EUR millions)	Q2 2008	Q2 2007	H1 2008	H1 2007
Revenue	379.9	259.6	759.8	498.5
Cost of sales	-360.1	-235.5	-716.3	-463.9
<b>Gross profit</b>	<b>19.8</b>	<b>24.1</b>	<b>43.5</b>	<b>34.5</b>
Administrative expenses	-10.5	-8.6	-17.8	-17.2
<b>Operating profit</b>	<b>9.3</b>	<b>15.5</b>	<b>25.7</b>	<b>17.3</b>
Financial items	-52.1	-13.1	-108.4	-28.1
Income tax	9.8	2.2	13.8	5.8
<b>Loss from continuing operations</b>	<b>-32.9</b>	<b>4.6</b>	<b>-68.9</b>	<b>-5.0</b>
Loss from discontinued operations	-67.9	-14.5	-70.8	-0.4
<b>Loss for the period</b>	<b>-100.8</b>	<b>-9.8</b>	<b>-139.7</b>	<b>-5.4</b>

#### Assets and liabilities

The Group's total assets amounted to EUR 1,999.6 million at the end of the quarter (Q1 2008: EUR 2,209.0 million), a decrease of EUR 209.4 million from the previous quarter, largely accountable to the Innovate write-off. Liabilities totalled EUR 1,711.7 million at quarter-end (Q1 2008: EUR 1,789.1 million).

After write off of Eimskip's investment in Innovate, the Group's equity ratio is approximately 14.4%. Eimskip loan agreements generally include equity ratio covenants higher than current value, that the company is in breach with. Eimskip is not in default on any loans and is in good contact with its creditors and is currently negotiating to secure its funding for the next six months,

#### Equity

By the end of the quarter, total equity was EUR 287.9 million (Q1 2008: 419.9 million). The decrease in equity is principally due to a loss in this quarter's business operations, impairment evaluation and the loss reported in the period comprised of the Innovate write-off.

The goal of the board of directors is to have the equity ratio of at least 25% by the end of 2008. To reach that goal, the board of directors will in the coming months evaluate strategic alternatives regarding e.g. Versacold Atlas and alternatives to lower financial expenses.

#### Working capital

Working capital used by operating activities was EUR 6.6 million in the quarter. Net operating assets increased by a EUR 59.4 million in the first half of the year.

#### Cash flow from investing activities

Net cash flow from investing activities in the first six months of the operating year totalled EUR 55.7 million.

#### Cash flow from financing activities

Net cash flow to financing activities was EUR 147 million in the first half of the operating year. The Group's net cash position decreased by EUR 39.2 million in the quarter. The closing cash balance at the end of the quarter was EUR 37.5 million.

#### Second quarter actions and recent developments

##### Management changes

Baldur Gudnason resigned from his post as Eimskip's CEO in February 2008. Gylfi Sigfússon was appointed as Eimskip's CEO on May 20<sup>th</sup> 2008. Gylfi has served in various roles within Eimskip and related companies, with over 18 years of experience in the logistics industry.

#### **A new board of directors elected**

A new board was elected at Eimskip's AGM held on 18 March 2008. The current board consists of the Chairman Sindri Sindrason and directors - Gunnar M. Bjorg, Fridrik Johannsson, Orri Hauksson and Tomas Otto Tomasson.

#### **Changes in the American route**

Eimskip announced a change in its American route in March 2008. With the change comes an increased sailing capacity and speed due to fewer ports of call in America. The route now sails on [? days] instead of fixed dates as before. With this change, Eimskip hopes to enhance business opportunities for its customers.

#### **A new mobile container crane in Faroe Islands**

Faroe Ship, Eimskip's subsidiary in the Faroe Islands bought a new mobile crane mid-March. The purchase of the crane is a part of the new and better route-system, and supports the expanding operations in the area well. The mobile crane is the biggest of its kind in the Faroes.

#### **Eimskip CTG receives its sixth new reefer vessel**

Eimskip-CTG has received its sixth new reefer vessel in approximately two years on May 9th. With these vessels, Eimskip CTG's capacity has more than doubled, as well as operating the youngest fleet of reefer vessels in the world. By investing in six new vessels, Eimskip is fulfilling its aim to be a leading transport company in the North-Atlantic.

#### **Eimskip's XL Leisure Group loan guarantee**

Eimskip announced on 7 May 2008 that the loan guarantee issued regarding the sale of XL Leisure Group was still valid. Eimskip is working closely with XL Leisure Group and its financial partners in resolving the matter, and it anticipates that the guarantee will be removed. An update to the market will be provided should the situation change.

#### **Eimskip writes off Innovate assets**

On the 11 June 2008, Eimskip announced a write-off of Innovate Holding's assets, Eimskip's subsidiary in the UK. Innovate's book value of EUR 74.1 million was fully written off during the second quarter of 2008. Eimskip has closely worked with its UK consultants to conduct an orderly sale process of Innovate. Innovate is now classified as a discontinued operation and any additional asset sales related to Innovate will not impact Eimskip.

#### **Management guidance**

---

It is expected that Eimskip's total revenue in the 2008 operational year will be around EUR 1.4 billion, down from EUR 1.9 billion. The lower expectations are a result of Innovate's write-off and the shortfall from Innovate's revenues (EUR 300 million), along with adverse currency fluctuations (EUR 200 million). Eimskip expects an EBITDA margin of 11.5%, compared to previous guidance of 9.5%. The higher EBITDA margin is due to Eimskip's cancellation of asset sales in the US and Canada. The transportation operations are built on a solid foundation that will be further strengthened internally.

Eimskip is committed to bringing its equity ratio above the 25% mark by the end of the year. To reach that goal, Eimskip will evaluate strategic alternatives for Versacold Atlas, as before stated.

#### **Method of consolidation and auditing**

---

The consolidated financial statements comprise the financial statements of Hf. Eimskipafelag Islands and its subsidiaries. The Group's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Group companies are those companies in which the parent company has a controlling financial interest through direct or indirect ownership of a majority voting interest, or effective managerial and contractual control. The subsidiaries held or acquired exclusively with a view to subsequent resale are excluded from consolidation and are included as available-for-sale investments and

measured at fair value where this can be reliably measured or at cost less impairment losses where fair value cannot be reliably measured. All material intra-group balances, transactions and any unrealised gains from intra-group transactions have been eliminated in consolidation. The equity and net income attributable to minority interests are shown as separate items in the consolidated financial statements.

The financial statements are reviewed by Eimskip's auditors, KPMG.

### **Independent Report on Review of Interim Financial Information**

---

To the Board of Directors of Hf. Eimskipafélag Íslands.

#### **Introduction**

We have reviewed the accompanying condensed consolidated interim balance sheet of Hf. Eimskipafélag Íslands and its subsidiary as of 30 April 2008 and the related consolidated interim income statement and changes in cash flow. The condensed consolidated interim financial statements do not include all of the information required for a complete set of consolidated annual financial statements. Management is responsible for the preparation and presentation of this interim financial information in accordance with the International Financial Reporting Standard IAS 34 "Interim Financial Reporting", as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

#### **Scope of review**

We conducted our review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### **Conclusion**

Based on our review, except for the possible effects of the matter described below, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the Company as of 30 April 2008, and the financial performance and cash flows for the interim period then ended, in accordance with IAS 34, 'Interim Financial Reporting'.

We draw attention to note 9 to the interim consolidated financial statements. The Group's equity ratio is 14.4% as at 30 April 2008, after the write-off of all interest in the UK subsidiary Innovate Holding. Due to this the Group does not meet all covenants in some loan agreements. The Company's management is evaluating various alternatives to strengthen the equity position.

Reykjavík, 19 June 2008.

KPMG hf.

Alexander G. Edvardsson  
Ólafur Már Ólafsson

### **Presentation of financial results**

---

An open meeting for investors and analysts will be held at Eimskip's headquarters at Sundaklettur, Reykjavik, starting at 08:30 GMT on 20 June 2008. A copy of the presentation and related material will be available on [www.eimskip.com](http://www.eimskip.com) prior to the meeting.

### **Enquires and presentation of financial results**

---

Halldor Kristmannsson, Executive VP of Corporate Communications  
Tel: (+354) 525 7000 / (+354) 840 7221  
E-mail: [halldor@eimskip.is](mailto:halldor@eimskip.is)

Interim results review for Q2 2008

19 June 2008

Page 5

Income statement (EUR millions)	Q2 2008	Q2 2007	Change %
Revenue	379.9	259.6	46.3%
Cost of sales	-360.1	-235.5	52.9%
<b>Gross profit</b>	19.8	24.1	-17.8%
Administrative expenses	-10.5	-8.6	22.0%
<b>Operating profit</b>	9.3	15.5	-39.8%
Financial items	-52.1	-13.1	297.3%
Income tax	9.8	2.2	341.0%
<b>Loss from continuing operations</b>	-32.9	4.6	-811.9%
Loss from discontinued operations	-67.9	-14.5	369.1%
<b>Loss for the period</b>	-100.8	-9.8	924.1%

Assets (EUR million)	Q2 2008	Q4 2007	Change %
Goodwill	367.2	436.7	-15.9%
Other intangible assets	126.4	93.6	35.1%
Property, vessels and equipment	1,037.2	1,287.5	-19.4%
Investments and associated companies	105.6	68.8	53.5%
Deferred tax asset	42.6	42.2	0.9%
<b>Non-current assets</b>	1,679.1	1,928.7	-12.9%
Inventories	8.1	8.3	-2.7%
Trade and other receivables	274.9	452.0	-39.2%
Cash and cash equivalents	37.5	79.7	-52.9%
<b>Current assets</b>	320.5	540.0	-40.7%
<b>Total assets</b>	1,999.6	2,468.7	-94.2%

Equity (EUR million)	Q2 2008	Q4 2007	Change %
Share capital	21.2	21.8	-3.1%
Share premium	419.8	448.5	-6.4%
Reserves	-105.6	-110.6	-4.5%
Retained earnings	-63.7	79.1	-180.5%
Minority interest	16.2	12.5	29.5%
<b>Total equity</b>	287.8	451.3	-299.8%

Liabilities (EUR million)	Q2 2008	Q4 2007	Change %
Convertible loan	66.9	76.5	-12.5%
Loans and borrowings	944.5	1,163.4	-18.8%
Provisions and other liabilities	19.0	55.2	-65.6%
Deferred income tax liability	142.1	178.3	-20.3%
<b>Non-current liabilities</b>	1,172.6	1,473.3	-20.4%
Loans and borrowings	306.2	239.3	28.0%
Trade and other payables	232.9	304.8	-23.6%
<b>Current assets</b>	539.1	544.1	-0.9%
<b>Total liabilities</b>	1,711.7	2,017.4	-134.1%