

Hf. Eimskipafélag Íslands

Condensed Consolidated Interim

Financial Statements

For the period from

1 November 2007 to 30 April 2008

Hf. Eimskipafélag Íslands
Kornгарðar 2
104 Reykjavík
Iceland

Reg. no. 660288-1049

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Endorsement by the Board of Directors and the CEO

The Consolidated Interim Financial Statements of Hf. Eimskipafélag Íslands for the period 1 November 2007 to 30 April 2008 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for Interim Financial Statements. The Financial Statements include the Consolidated Interim Financial Statements of the Parent Company and its direct subsidiaries, which numbered nine at period-end.

On 11 June, the Company's board of directors decided to write-off of all interest in the UK subsidiary Innovate HQ Ltd. The total amount of the write-off is EUR 70.8 million, which has been fully written off in the second quarter as loss from discontinued operation. Eimskip has begun a strategic review of Innovate Holding to divest all of the subsidiaries' assets. The possible outcome of such sales are not expected to change the total amount of the write-down.

According to the Consolidated Interim Income Statement the total operating revenue of the Group amounted to EUR 760 million during the period. Net loss for the period from continuing operations amounts to EUR 69 million. Loss from discontinued operation of Innovate Holding amounted to EUR 70.8 million resulting in a net loss of EUR 140 million for the six months. According to the Balance Sheet the Group's total assets were EUR 2,000 million. Equity at period-end amounted to EUR 288 million. Due to the reduction in the Group's equity ratio the Group does not fulfil all covenants in some loan agreements. There have currently not been any defaults on loans and down payments have been made on due dates. The board of directors is aware of the situation and is currently focusing on ways to strengthen the equity position. Among possible solutions are sale of assets, both property and equipment and stakes in other companies and sale of share capital.

The Board of Directors of Hf. Eimskipafélag Íslands and the CEO hereby confirm the Company's Consolidated Interim Financial Statements for the period from 1 November 2007 to 30 April 2008, by means of their signatures.

Reykjavík, 19 June 2008.

Board of Directors:

Sindri Sindrason
Gunnar M. Bjorg
Fridrik Johannsson
Orri Hauksson
Tomas Otto Hansson

CEO:

Gylfi Sigfusson

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

Consolidated Interim Income Statement

November 1, 2007 - April 30, 2008

	Notes	Second quarter		Six months	
		2008	2007	2008	2007
Revenue	5	379.869	259.594	759.762	498.467
Cost of sales		(360.074)	(235.509)	(716.269)	(463.942)
Gross profit		19.796	24.085	43.493	34.525
Administrative expenses		(10.450)	(8.569)	(17.779)	(17.242)
Operating profit	5	9.346	15.516	25.715	17.283
Finance income		1.088	4.807	3.080	8.808
Finance expenses		(53.545)	(18.139)	(111.738)	(37.798)
Net finance cost		(52.457)	(13.332)	(108.658)	(28.990)
Share in profit from associates		328	210	242	899
(Loss) profit before income tax		(42.783)	2.394	(82.701)	(10.808)
Income tax		9.847	2.233	13.760	5.808
(Loss) profit from continuing operations		(32.935)	4.627	(68.940)	(5.000)
Loss from discontinued operations (net of income tax)	6	(67.872)	(14.470)	(70.756)	(10.464)
Loss for the period		(100.808)	(9.843)	(139.696)	(15.464)
Attributable to:					
Equity holders of the parent company		(103.254)	(7.841)	(142.737)	(16.488)
Minority interest		2.446	(2.002)	3.040	1.024
Loss for the period		(100.808)	(9.843)	(139.696)	(15.464)
Earnings per share:					
Basic loss per share		(0,0591)	(0,0013)	(0,0805)	(0,0062)
Diluted loss per share		(0,0591)	(0,0013)	(0,0805)	(0,0061)

Consolidated Interim Balance Sheet

as at 30 April 2008

	Notes	30.4.2008	31.10.2007
Assets:			
Goodwill		367.226	436.677
Other intangible assets		126.384	93.551
Property, vessels and equipment		1.037.229	1.287.470
Investment in associated companies		1.618	1.424
Financial assets		104.030	67.398
Deferred tax assets		42.579	42.182
Total non-current assets		1.679.067	1.928.702
Inventories		8.086	8.306
Trade and other receivables		253.611	371.039
Receivable related to sold operations		21.293	80.973
Cash and cash equivalents		37.498	79.682
Total current assets		320.487	540.000
Total assets		1.999.554	2.468.702
 Equity:			
Share capital		21.165	21.849
Share premium		419.795	448.461
Reserves		(105.645)	(110.614)
(Accumulated deficit) retained earnings		(63.660)	79.077
Total equity attributable to equity holders of the parent		271.655	438.773
Minority interest		16.190	12.502
Total equity		287.845	451.275
 Liabilities:			
Convertible loan	9	66.926	76.471
Loans and borrowings	9	944.542	1.163.416
Provisions and other liabilities		19.016	55.200
Deferred income-tax liability		142.091	178.257
Total non-current liabilities		1.172.574	1.473.344
Loans and borrowings	9	306.232	239.289
Trade and other payables		232.903	304.794
Total current liabilities		539.136	544.083
Total liabilities		1.711.709	2.017.427
Total equity and liabilities		1.999.554	2.468.702

Consolidated Interim Statement of Changes in Equity as at 30 April 2008

	Share Capital	Share premium	Trans- lation reserve	Share option reserve	Fair value reserve	Retained earnings	Total	Minority interest	Total equity
Changes in Equity 2007:									
Equity at 1 November 2006	20.873	410.936	(10.000)	599	(4.115)	95.557	513.850	23.780	537.630
Loss for the period						(16.488)	(16.488)	1.024	(15.464)
Foreign currency translation			(7.843)				(7.843)		(7.843)
Change in fair value of available-for-sale asset net of tax					(2.023)		(2.023)		(2.023)
Total recognised income and expense			(17.843)	599	(6.138)	79.069	487.496	24.804	512.300
Purchases of treasury shares	(6)	(176)					(182)		(182)
Change in share option reserve, net of tax				660			660		660
Recognised on acquisition of subsidiaries								11.905	11.905
Equity at 30 April 2007	20.867	410.760	(17.843)	1.259	(6.138)	79.069	487.974	36.709	524.683
Changes in Equity 2008:									
Equity at 1 November 2007	21.849	448.461	(74.618)	(26.941)	(9.055)	79.077	438.773	12.501	451.274
Loss for the period						(142.737)	(142.737)	3.040	(139.696)
Foreign currency translation			(6.673)				(6.673)	(135)	(6.807)
Change in fair value of available-for-sale asset net of tax					(11.024)		(11.024)		(11.024)
Total recognised income and expense			(81.290)	(26.941)	(20.079)	(63.660)	278.340	15.407	293.747
Purchases of treasury shares	(684)	(28.666)		22.665			(6.685)		(6.685)
Recognised on acquisition of subsidiaries							0	782	782
Equity at 30 April 2008	21.165	419.795	(81.290)	(4.276)	(20.079)	(63.660)	271.655	16.190	287.845

Consolidated Interim Statement of Cash Flows

For the period ended 30 April 2008

	Notes	2007/8	2006/7
		1.11.-30.4.	1.11.-30.4.
Cash flows from operating activities:			
Loss for the period .....	(	139.696)	(15.464)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and impairment of fixed assets		43.227	24.529
Amortization and impairment of intangible assets		13.268	3.251
Currency fluctuation and indexation		5.209	726
Capital gains on the sale of assets and other changes		14.340	8.332
Loss on discontinued operations		70.756	382
Income tax .....	(	13.708)	(5.809)
Working capital (used in) provided by operating activities	(	6.604)	15.947
Changes in current assets		140.981	115.236
Changes in current liabilities .....	(	81.562)	(120.536)
Net cash provided by operating activities		52.815	10.647
Cash flows from investing activities:			
Investment in fixed and intangible assets	7 (	91.526)	(29.644)
Proceeds from sale of fixed and intangible assets		210.936	13.647
Investment in financial assets .....	(	49.888)	13.670
Investment in companies .....	(	7.178)	(415.952)
Other changes .....	(	6.592)	(24.309)
Net cash provided by (used in) investing activities		55.752	(442.588)
Cash flows from financing activities:			
Purchase of treasury shares .....	(	378)	(182)
Contribution from minority shareholders less dividend received		378	3.220
Long-term debt proceeds		255.157	688.882
Long-term debt repaid	9 (	415.749)	(386.176)
Short-term borrowing, change		18.952	4.753
Change in guarantee deposits .....	(	5.931)	(3.220)
Net cash (used in) provided by financing activities		(147.572)	307.277
Discontinued operation:			
Net cash from operating activities		3.745	33.788
Net cash from investing activities .....	(	223)	(80.719)
Net cash from financing activities .....	(	3.810)	48.154
	(	287)	1.223
Decrease in cash and cash equivalents .....	(	39.292)	(123.441)
Cash and cash equivalents at the beginning of the period		79.682	181.069
Effects of exchange rate fluctuations on cash .....	(	2.892)	(1.047)
Cash and cash equivalents at the end of the period		37.498	56.581

Notes to the Consolidated Interim Financial Statements

1. Reporting entity

Hf. Eimskipafélag Íslands (the “Company”) is a limited liability company domiciled in Iceland. The Consolidated Interim Financial Statements of the Company for the 6 months ended 30 April 2008 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group's interest in associated companies.

The Group's Consolidated Financial Statements for the year ended 31 October 2007 are available at www.eimskip.is.

2. Statement of compliance

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

The Consolidated Interim Financial Statements were approved and authorised for issue by the Company's Board of Directors on 19 of June 2008.

3. Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 October 2007.

Functional currency

The Consolidated Interim Financial Statements are prepared in euros (EUR), which is the Company's functional currency for the year 2008. All financial information presented in EUR has been rounded to the nearest thousand.

4. Estimates

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

5. Segment reporting

For the six months ended 30 April 2008

Business segments

The Group comprises the following main business segments:

Logistics: Trucking, warehousing and coldstore operations of the Group.

Shipping: All transportation in vessels operated by the Group.

<i>For six months 2008</i>	Shipping	Logistics	Unallocated	Elimination	Consolidated
Revenue	343.639	470.897	346	(55.120)	759.762
Expenses	(301.772)	(416.296)	(14.626)	55.120	(677.573)
EBITDA	41.868	54.601	(14.280)	0	82.189
Depreciation	(14.491)	(38.342)	(3.641)		(56.474)
EBIT	27.376	16.260	(17.921)	0	25.715
Net financing expense					(108.658)
Share of the loss of equity accounted investees					242
Income tax					13.760
Loss from continuing operation					(68.940)
Loss from discontinued operations (net of income tax)					(70.756)
Loss for the period					<u>(139.696)</u>

Notes, contd.:

5. contd.:

<i>For six months 2007</i>	Shipping	Logistics	Unallocated	Elimination	Consolidated
Revenue	336.274	186.444	317	(24.568)	498.467
Expenses	(303.053)	(160.798)	(16.570)	24.568	(455.852)
EBITDA	33.222	25.646	(16.253)	0	42.615
Depreciation	(11.854)	(12.489)	(989)		(25.332)
EBIT	21.368	13.157	(17.242)	0	17.283
Net financing expense					(28.990)
Share in earnings of equity accounted investees					899
Income tax					5.808
Loss from continuing operation					(5.000)
Loss from discontinued operations (net of income tax)					(10.464)
Loss for the period					(15.464)

Geographical segments:

<i>For six months 2008</i>	North Atlantic	Europe	Baltic	Americas and Pacific	Asia	Consolidated
Segment revenue	170.130	58.438	105.889	397.275	28.030	759.762
<i>For six months 2007</i>						
Segment revenue	171.721	59.887	99.166	156.714	10.979	498.467

6. Discontinued operation

Discontinued operation comprise of logistic operations in the UK, which were operated under Innovate Holdings and the Aviation operations.

The Company's board of directors has decided to close all activities connected to the UK subsidiary Innovate Holding and to write-off all interest in the company. The total amount of the write-off is EUR 71 million, which has been fully written off in the second quarter as loss from discontinued operation. Eimskip has begun a strategic review of Innovate Holding to divest all of the subsidiaries' assets.

The Aviation operations comprised of Air Atlanta Iceland and related companies. It was sold at the end of the fiscal year 2007 but was included in the consolidated financial statements until 31 October 2007.

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

Loss attributable to the discontinued operation is specified as follows:

	Six months 2008	Six months 2007
Result of discontinued operations:		
Revenue	95.323	287.870
Expenses	(101.206)	(293.924)
Result from operating activities	(5.883)	(6.054)
Net finance cost	(1.462)	(3.341)
Income tax	1.482	(1.069)
Result from operating activities, net of income tax	(5.863)	(10.464)
Loss on disposal of discontinued operations	(64.893)	0
Loss for the period	(70.756)	(10.464)

Notes, contd.:

6. contd.:	Six months 2008	Six months 2007
Result of discontinued operations:		
Net cash from operating activities	3.745	33.788
Net cash used in investing activities	(223)	(80.719)
Net cash (used in) provided by financing activities	(3.810)	48.154
Net cash used in discontinued operations	(287)	1.223
		<u>30.4.2008</u>
Effect of the disposal of Innovate Holdings on the financial position of the Group:		
Goodwill		60.151
Intangible assets		3.497
Property and equipment		33.772
Financial assets		3.164
Inventories		572
Trade and other receivables		55.487
Cash and cash equivalents		6.916
Loans and borrowings .....	(	44.667)
Deferred tax liabilities .....	(	4.766)
Account and other payables .....	(	39.636)
Net identifiable assets and liabilities		<u>74.490</u>
Cash disposed .....	(	6.916)
Net cash outflow .....	(	<u>6.916</u>

7. Acquisition of subsidiaries

Business combination

During the period the Group has acquired 60% of shares in Shandong Luyi Container Transportation Co., Ltd. in Qingdao, China. The company name was changed to Eimskip Container Depot Co. Ltd. The price for the 60% share is EUR 3 m. Goodwill recognized on the acquisition is EUR 2,1 m.

Notes, contd.:

8. Property, vessels and equipment

During the six months ended 30 April 2008 the Group acquired assets with a cost of EUR 92 million and sold assets for EUR 211 million.

During the period one new vessel, Holmfoss was delivered to the Group.

9. Interest-bearing borrowings

The following movements in loans and borrowings (non-current and current) due to new issues and repayments during the period ended 30 April 2008:

	Currency	Interest rate nominal	Face value	Carrying amount	Year of Maturity
Balance at 1 November 2007				1.479.176	
New issues:					
Bank loan	CAD	8,50%	20.342	13.556	2009
Bank loan	EUR	6,25%	12.734	12.734	2018
Bank loan	USD	15,00%	167.558	111.656	2012
Bank loan	RMB	8,60%	55.227	5.085	2009
Bank loan	NOK	5,45%	3.680	470	2016
Bank loan	ISK	17,50%	2.914.236	25.149	2008
Bank loan	EUR	8,84%	86.937	86.938	2009
Finance lease liabilities	EUR	-	12.659	12.659	2012
Finance lease liabilities	CAD	-	52.488	34.976	2013
Finance lease liabilities	NOK	-	1.258	158	2013
Finance lease liabilities	GBP	-	34	45	2013
Finance lease liabilities	RMB	-	176.610	16.324	2010
Disposal of subsidiary				(34.719)	
Currency fluctuation				(89.674)	
Repayments:					
Repayments of bank loans				(356.833)	
Balance at 30 April 2008				<u>1.317.700</u>	

Due to the reduction in the Group's equity ratio the Group does not fulfil all covenants in some loan agreements. There have however not been any defaults on loans and down payments have been made on due dates. The board of directors is aware of the situation and is currently focusing on ways to strengthen the equity position.

10. Share-based payments

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

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

Notes, contd.:

11. Quarterly Statements

The Group's operations is specified as follows according to quarters:

	Q2	Q3	Q4	Q1	Q2
	2007	2007	2007	2008	2008
Operating revenue	259.594	257.620	392.341	379.893	379.869
Operating expenses	(235.509)	(239.547)	(351.119)	(356.195)	(360.074)
Operating profit	24.085	18.073	41.222	23.698	19.796
Administrative expenses	(8.569)	(6.877)	(8.174)	(7.328)	(10.450)
Operating profit	15.516	11.196	33.048	16.369	9.346
Finance income and expenses	(13.332)	(14.301)	(20.319)	(56.201)	(52.457)
Share in profit from associates	210	18.725	142	(86)	328
Pre-tax (loss) profit	2.394	15.620	12.871	(39.918)	(42.783)
Income tax	2.233	1.471	(5.912)	3.913	9.847
Result from continuing operations	4.627	17.091	6.959	(36.005)	(32.935)
Discontinued operations	(14.470)	(2.958)	(14.729)	(2.883)	(67.872)
Net (loss) profit for the period	(9.843)	14.133	(7.770)	(38.889)	(100.808)
EBITDA	29.192	27.027	46.839	42.196	40.014