

# **Hf. Eimskipafélag Íslands**

**Condensed Consolidated Interim**

**Financial Statements**

**For the period from**

**1 November 2007 to 31 January 2008**

Hf. Eimskipafélag Íslands  
Kornagarðar 2  
104 Reykjavík  
Iceland

Reg. no. 660288-1049

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# Endorsement by the Board of Directors and the CEO

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The Consolidated Interim Financial Statements of Hf. Eimskipafélag Íslands for the period 1 November 2007 to 31 January 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.

According to the Consolidated Interim Income Statement the total operating revenue of the Group amounted to EUR 441 million during the period. Net loss for the period amounted to EUR 38,9 million. According to the Balance Sheet the Group assets were EUR 2.209 million. Equity at period-end amounted to EUR 419,9 million.

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 31 January 2008, by means of their signatures.

Reykjavík, 13 March, 2008.

Board of Directors:

Sindri Sindrason  
Thor Kristjansson  
Eggert Magnusson  
Gunnar M. Bjorg

CEO:

Stefan Agust Magnusson

# Consolidated Interim Income Statement

November 1, 2007 - January 31, 2008

		First quarter	
	Notes	2008	2007
Revenue .....	5	440.777	306.192
Cost of sales .....		<u>( 423.137)</u>	<u>( 294.660)</u>
<b>Gross profit</b> .....		17.640	11.532
Other income .....		2.600	9.238
Administrative expenses .....		<u>( 7.328)</u>	<u>( 9.146)</u>
<b>Operating profit</b> .....	5	12.912	11.624
Finance income .....		2.187	4.396
Finance expenses .....		<u>( 59.330)</u>	<u>( 20.976)</u>
<b>Net finance cost</b> .....		<u>( 57.143)</u>	<u>( 16.580)</u>
Share in (loss) profit from associates .....		<u>( 86)</u>	<u>689</u>
<b>Loss before income tax</b> .....		<u>( 44.318)</u>	<u>( 4.267)</u>
Income tax .....		<u>5.429</u>	<u>1.074</u>
<b>Loss from continuing operations</b> .....		<u>( 38.889)</u>	<u>( 3.193)</u>
Loss from discontinued operations (net of income tax) .....	6	<u>0</u>	<u>( 2.428)</u>
<b>Loss for the period</b> .....		<u><u>( 38.889)</u></u>	<u><u>( 5.621)</u></u>
<b>Attributable to:</b>			
Equity holders of the parent company .....		<u>( 39.482)</u>	<u>( 8.647)</u>
Minority interest .....		<u>594</u>	<u>3.026</u>
Loss for the period .....		<u><u>( 38.889)</u></u>	<u><u>( 5.621)</u></u>
<b>Earnings per share:</b>			
Basic earnings (loss) per share .....		<u>( 0,0214)</u>	<u>( 0,0049)</u>
Diluted earnings (loss) per share .....		<u>( 0,0214)</u>	<u>( 0,0045)</u>

# Consolidated Interim Balance Sheet

## as at 31 January 2008

	Notes	31.1.2008	31.10.2007	
<b>Assets:</b>				
Goodwill .....		435.206	436.677	
Other intangible assets .....		145.354	93.551	
Property, vessels and equipment .....		1.098.673	1.287.470	
Investment in associated companies .....		1.288	1.424	
Financial assets .....		126.801	67.398	
Deferred tax assets .....		18.112	42.182	
<b>Total non-current assets</b>		<b>1.825.435</b>	<b>1.928.702</b>	
Inventories .....		9.861	8.306	
Trade and other receivables .....		300.990	371.039	
Receivable related to sold operations .....		20.847	80.973	
Cash and cash equivalents .....		51.846	79.682	
<b>Total current assets</b>		<b>383.544</b>	<b>540.000</b>	
<b>Total assets</b>		<b>2.208.979</b>	<b>2.468.702</b>	
 <b>Equity:</b>				
Share capital .....		21.849	21.849	
Share premium .....		448.461	448.461	
Reserves .....	(	104.961)	(	110.614)
Retained earnings .....		39.594	79.077	
<b>Total equity attributable to equity holders of the parent</b>		<b>404.942</b>	<b>438.773</b>	
Minority interest .....		14.911	12.502	
<b>Total equity</b>		<b>419.853</b>	<b>451.275</b>	
 <b>Liabilities:</b>				
Convertible loan .....	8	70.726	76.471	
Loans and borrowings .....	8	1.048.211	1.163.416	
Provisions and other liabilities .....		50.673	55.200	
Deferred income-tax liability .....		135.624	178.257	
<b>Total non-current liabilities</b>		<b>1.305.234</b>	<b>1.473.344</b>	
Loans and borrowings .....	8	207.952	239.289	
Trade and other payables .....		275.939	304.794	
<b>Total current liabilities</b>		<b>483.892</b>	<b>544.083</b>	
<b>Total liabilities</b>		<b>1.789.126</b>	<b>2.017.427</b>	
<b>Total equity and liabilities</b>		<b>2.208.979</b>	<b>2.468.702</b>	

## Consolidated Interim Statement of Changes in Equity as at 31 January 2008

	Share Capital	Share premium	Trans- lation reserve	Share option reserve	Hedging reserve	Fair value reserve	Retained earnings	Total	Minority interest	Total equity
<b>Changes in Equity 2007:</b>										
Equity at 1 November 2006 .....	20.873	410.936	( 10.000)	599	0	( 4.115)	95.557	513.850	23.780	537.630
Loss for the period .....							( 8.647)	( 8.647)	3.026	( 5.621)
Foreign currency translation .....			( 2.106)					( 2.106)		( 2.106)
Change in fair value of available-for-sale asset net of tax .....						( 2.927)		( 2.927)		( 2.927)
Total recognised income and expense .....			( 12.106)	599	0	( 7.042)	86.910	500.170	26.806	526.976
Purchases of treasury shares .....	( 6)	( 176)					( 182)			( 182)
Change in share option reserve, net of tax .....				196				196		196
Recognised on acquisition of subsidiaries .....									11.905	11.905
Equity at 31 January 2007 .....	20.867	410.760	( 12.106)	795	0	( 7.042)	86.910	500.184	38.711	538.895
<b>Changes in Equity 2008:</b>										
Equity at 1 November 2007 .....	21.849	448.461	( 74.618)	( 26.941)	0	( 9.055)	79.077	438.773	12.501	451.274
Loss for the period .....							( 39.482)	( 39.482)	594	( 38.889)
Foreign currency translation .....			10.804					10.804	( 282)	10.523
Change in fair value of available-for-sale asset net of tax .....						( 5.152)		( 5.152)		( 5.152)
Total recognised income and expense .....			( 63.813)	( 26.941)	0	( 14.207)	39.594	404.942	12.814	417.756
Recognised on acquisition of subsidiaries .....								0	2.097	2.097
Equity at 31 January 2008 .....	21.849	448.461	( 63.813)	( 26.941)	0	( 14.207)	39.594	404.942	14.911	419.853

# Consolidated Interim Statement of Cash Flows

## For the period ended 31 January 2008

	Notes	2008	2007
<b>Cash flows from (to) operating activities:</b>			
Loss for the period .....		( 38.889)	( 5.621)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and impairment of fixed assets .....		19.595	13.895
Amortization and impairment of intangible assets .....		7.208	0
Currency fluctuation and indexation .....		18.148	( 368)
Capital gains on the sale of assets and other changes .....		12.842	( 9.359)
Loss on discontinued operations .....		0	2.428
Income tax .....		( 5.429)	( 3.000)
Working capital provided by (used in) operating activities		13.475	( 2.025)
Changes in current assets .....		96.684	( 47.199)
Changes in current liabilities .....		( 24.624)	( 12.779)
Net cash provided by (used in) operating activities		<u>85.536</u>	<u>( 62.002)</u>
<b>Cash flows from investing activities:</b>			
Investment in fixed and intangible assets .....	7	( 88.326)	( 20.742)
Proceeds from sale of fixed and intangible assets .....		219.263	203.300
Investment in financial assets .....		0	( 13.516)
Investment in companies .....		( 3.373)	( 415.952)
Other changes .....		( 110)	( 291)
Net cash from (used in) investing activities		<u>127.454</u>	<u>( 247.201)</u>
<b>Cash flows from financing activities:</b>			
Purchase of treasury shares .....		0	( 182)
Contribution from minority shareholders less dividend received .....		717	3.500
Long-term debt proceeds .....		72.668	374.559
Long-term debt repaid .....	8	( 367.033)	( 124.542)
Short-term borrowing, change .....		63.589	( 42.905)
Change in guarantee deposits .....		( 7.466)	0
Net cash provided by financing activities		<u>( 237.525)</u>	<u>210.430</u>
<b>Discontinued operation:</b>			
Net cash from operating activities .....		0	29.951
Net cash from investing activities .....		0	( 70.378)
Net cash from financing activities .....		0	28.322
		<u>0</u>	<u>( 12.104)</u>
<b>Decrease in cash and cash equivalents .....</b>		<b>( 24.535)</b>	<b>( 110.878)</b>
<b>Cash and cash equivalents at the beginning of the period .....</b>		<b>79.682</b>	<b>181.069</b>
<b>Effects of exchange rate fluctuations on cash .....</b>		<b>( 3.301)</b>	<b>( 385)</b>
<b>Cash and cash equivalents at the end of the period .....</b>		<b><u>51.846</u></b>	<b><u>69.806</u></b>

# Notes to the Consolidated Interim Financial Statements

## 1. Reporting entity

Hf. Eimskipafélag Íslands (the “Company”) is a company domiciled in Iceland. The Consolidated Interim Financial Statements of the Company for the 3 months ended 31 January 2008 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group's interest in associated companies.

The Consolidated Financial Statements of the Group for the year ended 31 October 2007 are available at [www.ei.is](http://www.ei.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 13 of March 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 three months ended 31 January 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 three months 2008</i>	Shipping	Logistics	Unallocated	Con- solidated
Revenue .....	149.174	294.203	0	443.378
Expenses .....	( 133.867)	( 264.015)	( 5.780)	( 403.662)
<b>EBITDA</b> .....	15.307	30.188	( 5.780)	39.715
Depreciation .....	( 7.673)	( 17.819)	( 1.311)	( 26.803)
<b>EBIT</b> .....	7.634	12.370	( 7.092)	12.912
Net financing expense .....				( 57.143)
Share of the loss of equity accounted investees .....				( 86)
Income tax .....				5.429
Loss of the period .....				( 38.889)



## Notes, contd.:

<i>For three months 2007</i>	Shipping	Logistics	Unallocated	Con- solidated
Revenue .....	131.040	184.150	241	315.430
Expenses .....	( 126.317)	( 154.921)	( 8.673)	( 289.911)
<b>EBITDA</b> .....	4.723	29.228	( 8.432)	25.519
Depreciation .....	( 5.583)	( 6.940)	( 1.372)	( 13.894)
<b>EBIT</b> .....	( 860)	22.289	( 9.804)	11.625
Net financing expense .....				( 16.580)
Share in earnings of equity accounted investees .....				689
Income tax .....				1.074
Loss of the period .....				( 3.192)
Result from operating activities (discontinued operations) .....				( 2.428)
Result for the period .....				( 5.621)

### *Geographical segments*

<i>For three months 2008</i>	North Atlantic	Europe	Baltic	Americas and Pacific	Asia	Consoli- dated
Segment revenue .....	78.243	95.364	51.763	203.198	14.809	443.377
<i>For three months 2007</i>						
Segment revenue .....	69.786	104.025	50.972	84.766	5.882	315.430

## 6. Discontinued operation

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.

Revenue from discontinued operation .....	83.893
Loss from discontinued operation .....	( 2.428)

For further information see note 6 in the Annual report of the Group for the year 2007.

## 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 1,4 m.

## Notes, contd.:

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### 8. Property, vessels and equipment

During the three months ended 31 January 2008 the Group acquired assets with a cost of EUR 28,2 million and sold assets for EUR 219,3 million.

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

### 8. Interest-bearing borrowings

The following movements in loans and borrowings (non-current and current) due to new issues and repayments during the period ended 31 January 2008:

	Currency	Interest rate nominal	Face value	Carrying amount	Year of Maturity
Balance at 1 November 2007 .....				1.479.176	
<b>New issues:</b>					
Bank loan .....	CAD	8,5%	13.422	9.229	2009
Bank loan .....	EUR	6,3%	12.734	12.734	2009
Bank loan .....	USD	15%	153.740	104.858	2012
Bank loan .....	RMB	12%	53.226	4.907	2008
Bank loan .....	NOK	5,45%	3.742	469	2016
Bank loan .....	EUR	6,93%	76.806	76.806	2009
Finance lease liabilities .....	EUR	-	1.941	1.941	2012
Finance lease liabilities .....	CAD	-	64.076	44.058	2013
Bank loan, current .....	EUR	12%	786	786	2008
Currency fluctition .....				( 41.041)	
<b>Repayments:</b>					
Repayments of bank loans .....				( 367.033)	
Balance at 31 January 2008 .....				<u>1.326.890</u>	

### 9. 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.:

### 10. Quarterly Statements

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

	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008
Operating revenue .....	306.192	316.452	318.930	502.154	440.777
Operating expenses .....	<u>(294.660)</u>	<u>(300.366)</u>	<u>(297.153)</u>	<u>( 480.023)</u>	<u>( 423.137)</u>
<b>Operating profit (loss) .....</b>	11.532	16.086	21.777	22.131	17.640
Gain on sale of assets .....	9.238	1.799	0	3.840	2.600
Administrative expenses .....	<u>( 9.145)</u>	<u>( 8.569)</u>	<u>( 6.877)</u>	<u>( 8.174)</u>	<u>( 7.328)</u>
<b>Operating profit .....</b>	11.625	9.316	14.900	17.797	12.912
Finance income and expenses .....	<u>( 16.581)</u>	<u>( 14.116)</u>	<u>( 14.493)</u>	<u>( 20.521)</u>	<u>( 57.143)</u>
Share in profit from associates .....	<u>689</u>	<u>210</u>	<u>18.725</u>	<u>142</u>	<u>( 86)</u>
<b>Pre-tax loss .....</b>	<u>( 4.267)</u>	<u>( 4.590)</u>	19.132	<u>( 2.582)</u>	<u>( 44.318)</u>
Income tax .....	<u>1.074</u>	<u>2.134</u>	70	<u>( 1.573)</u>	<u>5.429</u>
<b>Result from continuing operations .....</b>	<u>( 3.193)</u>	<u>( 2.456)</u>	19.202	<u>( 4.155)</u>	<u>( 38.889)</u>
Discontinued operations .....	<u>( 2.428)</u>	<u>( 7.387)</u>	<u>( 5.069)</u>	<u>( 3.615)</u>	<u>0</u>
<b>Net profit (loss) for the period .....</b>	<u>( 5.621)</u>	<u>( 9.843)</u>	<u>14.133</u>	<u>( 7.770)</u>	<u>( 38.889)</u>
<b>EBITDA .....</b>	25.519	24.592	31.551	43.474	39.715

### 11. Subsequent events

On February 21, 2008 Baldur Gudnason resigned as CEO of Eimskip. As a part of his termination agreement he exercised his put option of 67.6 million shares in the Company. As a result the Company took over loans in the amount of EUR 30.1 m. The put option was granted in 2007 and was reflected in the financial statements for the year ended 31 October 2007 by a reduction in stockholders' equity in the amount of EUR 28.2 m. and a corresponding increase in liabilities. As a result the effects on the stockholders' equity in the year 2008 due to the exercise of the put option are minimal.