Eimskipafélag Íslands ehf.

Consolidated
Financial Statements
2006

For the period from
1 November 2005 to 31 October 2006

Eimskipafélag Íslands ehf.
Korngarðar 2
104 Reykjavík
Iceland

Reg. no. 461202-3220

Contents

Endorsement by the Board of directors and the CEO

The Consolidated Financial Statements of Eimskipafélag Íslands ehf. have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by EU. The Financial Statements include the Consolidated Financial Statements of the Parent Company and its direct subsidiaries, which numbered 10 at year-end. In addition to the subsidiaries there are 62 companies within the Group owned by subsidiaries, so that the Group contains 73 companies in all.

According to the Consolidated Income Statement the total operating revenue of the Group amounted to ISK 42,437 million during the year. Net loss for the year amounted to ISK 187 million. According to the Balance Sheet the Group assets were ISK 64,592 million. Equity at year-end amounted to ISK 18,816 million. Information about valuation of the Group's principal assets is shown in the Notes to the Consolidated Financial Statements.

In April 2006 the share capital was increased by nominal value of ISK 200 million which was sold for ISK 1,400 million. In October 2006 the share capital was increased by nominal value of ISK 1,113 million which was sold for ISK 7,791 million.

In November 2006 the Group acquired all of the outstanding units of Atlas Cold Storage Income Trust in Canada. The total cash consideration paid for the acquisition was ISK 38,350 million. Atlas Cold Storage will be part of the Group from November, 2006.

In November 2006 the Group acquired 65% of outstanding shares in Containerships Ltd. OY in Finland. Total payment for the shares was ISK 2,592 million. Containerships Ltd. OY will be part of the Group from November 2006.

In January 2006 the Group acquired 40% of shares in Daalimpex BV, in Nederland and in January 2007 60% of the shares. Total payment for the shares was ISK 3,200 million. Daalimpex BV will be part of the Group from January 1, 2007.

The Board of Directors of Eimskipafélag Íslands ehf. and the CEO hereby confirm the Company's Consolidated Financial Statements for the year 2006, which is the period from 1 November 2005 to 31 October 2006, by means of their signatures.

Reykjavík, 18 January 2007.

Board of Directors:

Magnús Þorsteinsson

Hafþór Hafsteinsson

Steingrímur H Pétursson

CEO:

Baldur Guðnason

Independent Auditors’ Report

To the Board of Directors and Shareholder of Eimskipafélag Íslands ehf.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Eimskipafélag Íslands ehf. and its subsidiaries (the “Group”), which comprise the consolidated balance sheet as at 31 October 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors’ responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 October 2006, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 18 January 2007.

Sæmundur Valdimarsson

Ólafur Már Ólafsson

KPMG hf.

Consolidated Income Statement

For the year ended October 31, 2006

	Notes	2006 1.11.-31.10.	2005 1.1. - 31.10.
Revenue	8	42.437.031	24.249.665
Cost of sales		(38.630.637)	(21.805.330)
Gross profit		3.806.394	2.444.335
Gain on sale of assets		419.886	116.827
Administrative expenses		(1.629.354)	(1.283.892)
Operating profit		2.596.926	1.277.270
Finance income	10	488.760	267.463
Finance expenses	10	(3.154.645)	(337.395)
Net finance cost		(2.665.885)	(69.932)
Share of the profit of associates	14	56.410	(10.312)
(Loss) profit before income tax		(12.548)	1.197.026
Income tax expense	11	(174.597)	(212.264)
(Loss) profit for the year		(187.146)	984.762
Attributable to:			
Equity holders of the parent company		(250.704)	952.026
Minority interest		63.559	32.736
(Loss) profit for the year		(187.146)	984.762
Earnings per share:			
Basic and diluted (loss) earnings per share of ISK 1	24	(0,06)	0,26

All amounts are in thousands of ISK

Consolidated Balance Sheet
as at 31 October 2006

	Notes	31.10.2006	31.10.2005
Assets:			
Vessels, property and equipment	12	18.449.479	13.179.629
Intangible assets	13	6.412.644	1.889.460
Shares in associated companies	14	1.393.398	51.041
Shares in other companies	15	3.793.400	2.071.579
Loans to associated companies	16	188.705	136.114
Long-term notes	17	81.126	123.262
Prepayments	18	2.701.137	0
Deferred tax assets	19	90.253	46.211
Total non-current assets		33.110.142	17.497.296
Inventories	20	449.968	355.060
Trade and other receivables	21	14.325.197	5.734.403
Receivables from parent company		1.536.058	621.164
Assets classified as held for sale	6	1.153.351	0
Cash and cash equivalents	22	14.017.092	1.659.321
Total current assets		31.481.666	8.369.948
Total assets		64.591.807	25.867.244
Equity:			
Share capital	23	5.010.407	3.697.407
Contributed capital in excess of par		9.251.250	1.373.250
Reserves	23	122.767	(330.338)
Retained earnings		2.371.581	2.622.285
Total equity attributable to equity holders of the parent		16.756.005	7.362.604
Minority interest		2.060.324	98.849
Total equity		18.816.329	7.461.453
Liabilities:			
Interest-bearing borrowings	25	15.050.777	12.333.737
Deferred income	26	3.202.852	0
Deferred income-tax liability	19	407.446	179.675
Total non-current liabilities		18.661.075	12.513.412
Interest-bearing borrowings	25	15.956.159	1.093.295
Current tax payable		73.861	114.096
Trade and other payables	27	11.084.383	4.684.988
Total current liabilities		27.114.403	5.892.379
Total liabilities		45.775.478	18.405.791
Total equity and liabilities		64.591.807	25.867.244

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Consolidated Statement of Changes in Equity
as at 31 October 2006

	Share Capital	Contributed capital in excess of par	Reserves	Retained earnings	Total equity attributable to equity holders of the parent	Minority interest	Total equity
Changes in Equity 2005:							
Equity at 1 January 2005	3.697.407	1.373.250	(15.211)	1.670.259	6.725.705	270.077	6.995.782
Foreign currency translation differences for foreign operations			(226.236)		(226.236)	(8.152)	(234.388)
Net change in fair value of available-for-sale financial assets			(88.891)		(88.891)		(88.891)
Income and expense recognised directly in equity			(315.127)	0	(315.127)	(8.152)	(323.279)
Profit for the year				952.026	952.026	32.736	984.762
Total recognised income and expense for the year			(315.127)	952.026	636.899	24.584	661.483
Minority interest, change						(195.812)	(195.812)
Equity at 31 October 2005	3.697.407	1.373.250	(330.338)	2.622.285	7.362.604	98.849	7.461.453
Changes in Equity 2006:							
Equity at 1 November 2005	3.697.407	1.373.250	(330.338)	2.622.285	7.362.604	98.849	7.461.453
Foreign currency translation differences for foreign operations			364.215		364.215	(72.326)	291.888
Net change in fair value of available-for-sale financial assets			88.891		88.891		88.891
Income and expense recognised directly in equity			453.105	0	453.105	(72.326)	380.779
Loss for the year				(250.704)	(250.704)	63.559	(187.146)
Total recognised income and expense for the year			453.105	(250.704)	202.401	(8.767)	193.633
Issue of ordinary shares	1.313.000	7.878.000			9.191.000	0	9.191.000
Minority interest, change						1.970.243	1.970.243
Equity at 31 October 2006	5.010.407	9.251.250	122.767	2.371.581	16.756.005	2.060.324	18.816.329

All amounts are in thousands of ISK

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

	Notes	2006 1.11.-31.10.	2005 1.1.-31.10.
Cash flows from operating activities:			
(Loss) profit for the year		(187.146)	984.762
Difference between (loss) profit and cash from operations:			
Depreciation		1.872.188	1.337.864
Capital gains on the sale of assets and other changes		(271.365)	(95.971)
Interest in associated companies		(56.410)	10.312
Currency fluctuation and indexation		1.853.553	(478.229)
Income tax		(3.522)	29.044
Working capital provided by operating activities		3.207.297	1.787.782
Changes in current assets and liabilities		184.140	(444.613)
Interest received		381.234	228.847
Interest paid		(960.848)	(305.597)
Income tax paid		(110.604)	(112.183)
Net cash provided by operating activities		2.701.219	1.154.236
Cash flows from investing activities:			
Investments in fixed assets		(3.138.893)	(2.631.280)
Proceeds from the sale of fixed assets		1.217.784	200.279
Investments in intangible assets		(566.217)	(173.784)
Investments in shares in subsidiaries less acquired cash and cash equivalents		(4.978.964)	20.918
Investments in shares in other companies		(1.108.750)	(2.124.843)
Proceeds from the sale of shares in other companies		18.154	50.489
Long term notes repaid		491.939	928
Net cash used in investing activities		(8.064.946)	(4.657.293)
Cash flows from financing activities:			
Increase in share capital		7.657.500	0
Long-term debt proceeds		4.106.690	5.318.917
Long-term debt repaid		(3.908.296)	(1.366.728)
Dividends paid to minority in a subsidiary		(4.166)	(1.396)
Short-term borrowing, change		9.892.230	(85.932)
Net cash provided by financing activities		17.743.959	3.864.861
Increase in cash and cash equivalents		12.380.232	361.804
Cash and cash equivalents at the beginning of the year		1.659.321	1.349.361
Effects of exchange rate fluctuations on cash and held		(22.462)	(51.845)
Cash and cash equivalents at the end of the year		14.017.091	1.659.320
Investment and financing activities not affecting cash flows:			
Investment in companies		(2.377.408)	(547.000)
Borrowings acquired		2.377.408	547.000

Consolidated Financial Statements of Eimskipafélag Íslands ehf. 2006 8 All amounts are in thousands of ISK

Notes to the Financial Statement

1. Reporting entity

Eimskipafélag Íslands ehf. (the "Company") is a company domiciled in Iceland. The address of the Company's registered office is Korngarðar 2, 104 Reykjavík. The consolidated Financial Statements of the Company as at and for the year ended 31 October 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associated companies. The Group primarily is involved in supplying transportation and logistic services.

The Company is a subsidiary of Hf. Eimskipafélag Íslands, which is the ultimate parent company.

2. Basis of preparation

a. *Statement of compliance*

The consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by EU.

The Financial Statements were approved and authorised for issue by the Company's Board of Directors on 18 of January 2007.

b. *Basis of measurement*

The Consolidated Financial Statements have been prepared on the historical cost basis except derivative financial instruments and available-for-sale financial assets which are measured at fair value.

The methods used to measure fair values are discussed further in note 4.

c. *Functional and presentation currency*

These consolidated financial statements are presented in Icelandic Króna (ISK), which is the Company's functional currency. All financial information presented in ISK has been rounded to the nearest thousand.

d. *Use of estimates and judgements*

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 3. f. – lease classification.
Note 7 – business combinations
Note 13 – measurement of the recoverable amounts of cash-generating units
Note 19 – utilisation of tax losses
Note 25 – accounting for an arrangement containing a lease

3. 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.

Changes of the financial year

The financial year has been changed to mach the Parent Company, Hf. Eimskipafélag Íslands, which covers the period from 1 November to 31 October. Because of this the comparison numbers in the Income Statement, Statement of Changes in Equity, Statement of Cash Flow and related notes are only for 10 months of the year 2005 and cover the period from 1 January to 31 October 2005 and are not entirely comparable.

a. ***Basis of consolidation***

(i) *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) *Associates*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group’s share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group’s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) *Transactions eliminated on consolidation*

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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 amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity investments.

3. b. contd.:

(ii) *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Icelandic kronas at foreign exchange rates at the reporting date. The income and expenses of foreign operations are translated to Icelandic kronas at the average exchange rate for the year. Foreign currency differences are recognised directly in equity.

c. ***Financial instruments***

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3 (l).

Held-to-maturity investments

When the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(h)(i)), and foreign exchange gains and losses on available-for-sale monetary items (see note 3(b)(i)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) *Derivative financial instruments*

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivative are recognised initially at fair value. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognised in the Income Statement.

The fair value of forward exchange contracts is the present value of the forward price.

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in profit or loss as part of foreign currency gains and losses.

3. c. contd.:

(iii) *Share capital*

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

d. ***Vessels, property and equipment***

(i) *Recognition and measurement*

Items of vessels, property and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property and equipment at 1 January 2004, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

(ii) *Owned assets*

Items of vessels, property and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see note 3. h).

Where parts of an item of vessels, property and equipment have different useful lives, they are accounted for as separate items of vessels, property and equipment.

(iii) *Subsequent costs*

The cost of replacing part of an item of vessels, property and equipment is recognised 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 costs of the day-to-day servicing of vessels, property and equipment are recognised in profit or loss as incurred.

(iv) *Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of vessels, property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Buildings	15 - 50 years
Vessels	5 - 14 years
Equipments	3 - 10 years

Useful lives and residual value are reassessed annually.

3. contd.:

e. ***Intangible assets***

(i) *Goodwill*

Goodwill (negative goodwill) arises on the acquisition of subsidiaries and associates.

Acquisitions prior to 1 January 2004

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2004. In respect of acquisitions prior to 1 January 2004, goodwill represents the amount recognised under the Group's previous accounting framework, IS-GAAP.

Acquisitions on or after 1 January 2004

For acquisitions on or after 1 January 2004, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) *Other intangible assets*

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

(iii) *Amortisation*

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Software	3 - 5 years

f. ***Leased assets***

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon 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.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

g. ***Inventories***

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3. contd.:

h. ***Impairment***

(i) *Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

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

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(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 balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated, see note g. Impairment tests are conducted at least once a year on the intangible assets which are thought to have infinite lifetime.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

3. contd.:

i. ***Employee benefits***

(i) *Defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

j. ***Provisions***

A provision is recognised 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***

(i) *Services*

Revenue of sale of commodity and service are entered in the Income Statement when significant part of the risk and benefit is transferred to the buyer. Revenue are not entered in the Income Statement if there is uncertainty about collection or related cost.

Revenue from services rendered is recognised 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 work performed.

(ii) *Changes in presentation*

The presentation of transportation revenue and other operating income in the Income Statement has been changed from previous year to present better the operation of the Group. Other operating income included gain on sale of assets and other operating income. Other operating income is now included in transportation revenue and other revenue, which increase by ISK 231 million for the year 2005 compared to the figures published in the financial statements for 2005. Gain on sale on assets is now separate item in the Income Statement. These changes in the presentation do not change the net profit for the year 2005.

l. ***Lease payment***

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

m. ***Finance income and expenses***

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

3. contd.:

n. ***Income tax***

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets is recognised to the extent that is probable that future taxable profits will be available against which temporary difference can be utilised.

o. ***Earnings per share***

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

p. ***Segment reporting***

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

q. ***New standards and interpretations not yet adopted***

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 October 2006, and have not been applied in preparing these consolidated financial statements.

- IFRS 7 *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital.
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.
- IFRIC 8 *Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

3. q. contd.:

- IFRIC 9 *Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.
- IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e. 1 January 2004). The adoption of IFRIC 10 will not result in change in retained earnings.

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

(i) ***Vessel property and equipment***

The fair value of vessel, property and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of equipment is based on the quoted market prices for similar items.

(ii) ***Intangible assets***

The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) ***Investments in equity and debt securities***

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(iv) ***Trade and other receivables***

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(v) ***Derivatives***

The fair value of forward exchange contracts is the present value of the forward price.

5. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire vessels, property and equipment, and intangible assets other than goodwill.

5. contd.:

Business segments

The Group comprises the following main business segments:

Domestic: The domestic transportation and warehouse and trucking business in Iceland.

Shipping: All transportation from and to Iceland.

International: Foreign operation of the Group.

Geographical segments

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

Business segments

For the year 2006	Domestic	Shipping	International	Eliminations	Consolidated
Revenue	7.054.718	15.697.894	25.559.305	(5.455.000)	42.856.917
Expenses	(6.664.582)	(12.938.988)	(24.239.233)	5.455.000	(38.387.803)
EBITDA	390.136	2.758.906	1.320.072	0	4.469.114
Depreciation	(423.569)	(1.011.222)	(437.397)		(1.872.188)
EBIT	(33.433)	1.747.684	882.675	0	2.596.926
Financial income and expenses					(2.665.885)
Share of the profit of associates					56.410
Income tax expense					(174.597)
Net earnings					(187.146)

For the year 2005	Domestic	Shipping	International	Eliminations	Consolidated
Revenue	4.992.203	12.076.698	11.429.923	(4.132.331)	24.366.493
Expenses	(4.771.746)	(10.223.356)	(10.888.588)	4.132.331	(21.751.359)
EBITDA	220.457	1.853.342	541.335	0	2.615.134
Depreciation	(333.393)	(788.851)	(215.620)	0	(1.337.864)
EBIT	(112.936)	1.064.491	325.715	0	1.277.270
Financial income and expenses					(69.932)
Share of the profit of associates					(10.312)
Income tax					(212.264)
Net earnings					984.762

Geographical segments

For the year 2006	Iceland	Europe	Asia and America	Eliminations	Consolidated
Operating income	21.619.583	25.185.742	2.412.848	(6.335.912)	42.882.261
Total assets	30.404.098	33.402.789	784.921		64.591.807
Capital expenditure	3.123.516	489.691	91.902		3.705.110

For the year 2005	Iceland	Europe	Asia and America	Eliminations	Consolidated
Operating income	16.520.519	10.023.405	1.889.532	(4.066.964)	24.366.493
Total assets	17.482.058	7.802.435	582.751		25.867.244
Capital expenditure	2.743.600	51.148	10.315		2.805.063

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6. Non-current assets held for sale

Part of a facility within the international segment is presented as a non current assets held for sale following the commitment of the management to a plan to sell facilities. Efforts to sell have commenced, and a sale is expected by January 2007. At 31 October 2006 the assets held for sale amounts to ISK 1,153 millions as shown in note 7.

7. Acquisitions of subsidiaries

Business combination

P/F Heri Thomsen

In April 2006 the Group acquired all shares in P/F Heri Thomsen for ISK 69 million. The company operations are transportations in the Faroe Islands.

The acquisition of P/F Heri Thomsen had the following effect on the Group's assets and liabilities on acquisition date:

	Note	Pre-acquisition carrying amounts	Recognised values on adjustments
Vessels, property and equipment	12	546.576	546.576
Intangible assets	13	1.767	1.767
Deferred tax assets		24.503	24.503
Inventories		9.721	9.721
Trade and other receivables		122.704	122.704
Cash and cash equivalents		6.027	6.027
Interest-bearing borrowings		(476.160)	(476.160)
Deferred income-tax liability		(6.075)	(6.075)
Trade and other payables		(300.294)	(300.294)
Net identifiable assets and liabilities		(71.231)	(71.231)
Goodwill on acquisition			140.237
			69.006
Consideration paid, satisfied by cash			69.006
Cash acquired			(6.027)
Net cash outflow			62.979

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business's work force and the synergies expected to be achieved from integrating the company into the Group's existing business. The purchase price allocations has not been finalized.

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7. contd.:

Innovate HQ ltd.

In May 2006 the Group acquired 55% of the shares in Innovate HQ Limited for ISK 2,443 million. The principal activities of the company relate to operation of storage and distribution services for the food industry and non food activities including the operation of rail freight terminals, warehousing and property development.

The acquisition of Innovate HQ Ltd. had the following effect on the Group's assets and liabilities on acquisition date:

	Note	Pre-acquisition carrying amounts	Recognised values on adjustments
Vessels, property and equipment	12	3.573.901	3.573.901
Intangible assets	13	549.714	549.714
Prepayments		4.076.038	4.076.038
Inventories		94.489	94.489
Trade and other receivables		5.848.731	5.848.731
Assets classified as held for sale		1.175.632	1.175.632
Cash and cash equivalents		2.526.285	2.526.285
Interest-bearing borrowings		(2.108.210)	(2.108.210)
Deferred income-tax liability		(160.079)	(160.079)
Trade and other payables		(11.209.126)	(11.209.126)
Net identifiable assets and liabilities		4.367.375	4.367.375
Eimskip acquired 55% of shares			2.402.056
Goodwill on acquisition			40.568
Consideration paid			2.442.624

Consideration paid, satisfied by loan note	2.377.408
Consideration paid, directly attributable costs	65.216
Cash acquired	(2.526.285)
Net cash inflow	(83.661)

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business's work force and the synergies expected to be achieved from integrating the company into the Group's existing business.

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7. contd.:

UAB Kursiu Linija

In August 2006 the Group acquired all shares in UAB Kursiu Linija for ISK 36 million. The company provide door to door transport services on the Eastern shore of the Baltic Sea are logistics solutions and strategic distribution centres.

The acquisition of UAB Kursiu Linija had the following effect on the Group's assets and liabilities on acquisition date:

		Pre-acquisition carrying amounts	Recognised values on adjustments
Vessels, property and equipment	12	464.730	464.730
Intangible assets	13	135.797	135.797
Inventories		27.963	27.963
Trade and other receivables		432.807	432.807
Cash and cash equivalents		19.287	19.287
Interest-bearing borrowings		(613.894)	(613.894)
Trade and other payables		(1.205.997)	(1.205.997)
Net identifiable assets and liabilities		(739.307)	(739.307)
Goodwill on acquisition			775.278
Consideration paid			35.971
Consideration paid, satisfied by cash			34.644
Consideration paid, directly attributable costs			1.327
Cash acquired			(19.287)
Net cash outflow			16.684

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business's work force and the synergies expected to be achieved from integrating the company into the Group's existing business. The purchase price allocations has not been finalized.

Corby Chilled Distribution Ltd.

On 29 September 2006 the Group acquired all shares in Corby Chilled Distribution Ltd. for ISK 3,808 million. The company is a leading provider of temperature controlled perishable consolidation services to the fresh food industry.

The acquisition of Corby Chilled Distribution Ltd. had the following effect on the Group's assets and liabilities on acquisition date:

	Note	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on adjustments
Vessels, property and equipment	12	1.002.967	397.176	1.400.143
Trade and other receivables	13	1.536.995		1.536.995
Interest-bearing borrowings		(98.067)		(98.067)
Deferred income-tax liability		(40.819)		(40.819)
Trade and other payables		(1.165.140)		(1.165.140)
Net identifiable assets and liabilities		1.235.936	397.176	1.633.112
Goodwill on acquisition				2.175.229
Consideration paid				3.808.341

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7. contd.:

	Recognised values on adjustments
Consideration paid, satisfied by cash	3.628.520
Consideration paid, directly attributable costs	179.821
Net cash outflow	3.808.341

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business's work force and the synergies expected to be achieved from integrating the company into the Group's existing business. The purchase price allocations has not been finalized.

8. Revenue

Revenue are specified as follows:	2006 1.11.-31.10.	2005 1.1.-31.10.
Transportation and logistic revenue	39.929.705	24.018.806
Property revenue	2.296.994	0
Other revenue	210.332	230.859
Total revenue	42.437.031	24.249.665

9. Salaries and related expense

(i) Salaries are specified as follows:

Salaries	7.318.734	4.354.743
Contribution to defined contribution plans	424.775	391.927
Salaries - related expenses	572.653	329.577
Salaries and salaries - related expense total	8.316.163	5.076.246
Number of employees at year-end	2.416	1.318

Salaries are divided as follows:

Cost of sale	7.659.447	4.686.278
Administrative expenses	656.716	389.968
Salaries and salaries - related expense total	8.316.163	5.076.246

(ii) Wages and salaries to CEO and the Board of Directors are ISK 24 million during the year.

(iii) Fees to Auditors:

Audit of Financial Statements	51.244	25.516
Review of Financial Statements	13.127	13.529
Other services	25.312	10.564
Fees to Auditors total	89.682	49.608

The amount includes payments to elected auditors of all companies within the Group.

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10. Finance income and expenses

	2006 1.11.-31.10.	2005 1.1.-31.10.
Finance income is specified as follows:		
Interest income from Parent Company	0	10.664
Other interest income	486.171	253.134
Dividends received	2.589	3.665
Financial income total	488.760	267.463
Finance expense is specified as follows:		
Interest expense	(1.161.506)	(635.324)
Net foreign exchange loss	(1.993.139)	297.929
Financial expense total	(3.154.645)	(337.395)
Net finance cost	(2.665.885)	(69.932)

11. Income tax expenses

(i) Income tax recognised in the income statement:

	2006	2005
Current tax payable	185.691	183.220
Adjustment for prior years	(11.094)	29.044
Total income tax expense	174.597	212.264

(ii) Reconciliation of effective tax rate:

		2006 1.11. -.31.10.		2005 1.1. -.31.10.
(Loss) profit before tax income		(12.548)		1.197.026
Income tax using Company's domestic tax rate	18,0%	(2.259)	18,0%	215.465
Effect of tax rates in foreign jurisdictions	(585,6%)	73.489	(1,4%)	(16.973)
Recognition of previously unrecognised tax losses	(187,5%)	23.530	0,8%	10.174
Other differences	(636,2%)	79.837	0,3%	3.598
Effective tax	(1.391,4%)	174.597	17,7%	212.264

Income tax recognised directly in equity is ISK 19 million.

12. Vessels, property and equipment

Vessels, property and equipment are specified as follows:

Cost	Land and buildings	Vessels	Containers and equipment	Total
Balance at 1 January 2005	6.672.095	5.498.638	4.037.412	16.208.144
Acquisitions through business combinations	6.291	0	31.795	38.086
Other additions	82.250	1.060.468	772.220	1.914.939
Disposals	(126.715)	0	(373.808)	(500.523)
Effect of movements in foreign exchange rates	(142.373)	(71.815)	(88.877)	(303.065)
Balance at 31 October 2005	6.491.549	6.487.291	4.378.741	17.357.581
Balance at 1 November 2005	6.491.549	6.487.291	4.378.741	17.357.581
Acquisitions through business combinations	1.439.797	307.058	2.741.686	4.488.541
Other additions	350.530	1.143.413	899.418	2.393.361
Disposals	(962.251)	0	(278.890)	(1.241.141)
Effect of movements in foreign exchange rates	140.700	99.583	98.079	338.361
Balance at 31 October 2006	7.460.325	8.037.345	7.839.034	23.336.704

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12. contd.:

Depreciation	Land and buildings	Vessels	Containers and equipment	Total
Balance at 1 January 2005	795.821	1.571.079	1.713.879	4.080.779
Acquisitions through business combinations	0	0	0	0
Depreciation for the year	218.185	496.539	520.681	1.235.405
Disposals	(111.019)	0	(234.781)	(345.800)
Effect of movements in foreign exchange rates	(30.666)	(6.765)	(38.660)	(76.091)
Balance at 31 October 2005	872.322	2.060.852	1.961.120	4.894.293
Balance at 1 November 2005	872.322	2.060.852	1.961.120	4.894.293
Acquisitions through business combinations	0	0	0	0
Depreciation for the year	266.664	671.663	768.530	1.706.857
Disposals	(234.960)	0	(216.306)	(451.267)
Effect of movements in foreign exchange rates	44.908	13.449	62.667	121.024
Balance at 31 October 2006	948.933	2.745.964	2.576.011	6.270.908
Carrying amounts				
At 1 January 2005	5.876.274	3.927.559	2.323.532	12.127.365
At 31 October 2005	5.619.227	4.426.439	2.417.621	12.463.288
Vessels in building, not included above	0	716.341	0	716.341
At 31 October 2005	5.619.227	5.142.780	2.417.621	13.179.629
Balance at 1 November 2005	5.619.227	5.142.780	2.417.621	13.179.629
Balance at 31 October 2006	6.511.392	5.291.382	5.263.023	17.065.796
Vessels in building, not included above		1.383.683		1.383.683
At 31 October 2006	6.511.392	6.675.065	5.263.023	18.449.479

Leased vessels, warehouses and machinery

The Group leases production equipment under a number of finance lease agreements. Some leases provide the Group with the option to purchase the equipment at a beneficial price. The leased equipment secures lease obligations (see note 25). At 31 October 2006 the net carrying amount of leased machinery was ISK 586 million (2005: ISK 172 million).

Insurance and value of fixed assets

Insurance value of assets are:

	Insurance value	Book value
Buildings	9.314.262	6.511.392
Vessels	9.612.016	5.291.382
Containers and equipment	5.770.742	5.263.023
	24.697.020	17.065.796

Vessels in possession of the Group are 13 in the end of October. During the year one ship was purchased and in November 2006 one vessel was delivered out of five vessels that the Group has in building. The contracts for building the new vessels that will be delivered during the years 2006 - 2008. In the Balance sheet are capitalized among fixed assets ISK 1,384 million down payment on the building of the vessels. Cost of capital relating to the vessels in building is expensed in the Income Statement. The estimated total building cost is ISK 6,361 million.

An estimate market value of the thirteen vessels that are in use at year-end, which was made by a broker, amounted to approximately ISK 6,870 million.

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13. Intangible assets

Intangible assets, depreciations and impairment loss are specified as follows:

Cost	Goodwill	Software	Total
Balance at 1 January 2005	1.153.045	678.234	1.831.278
Acquisitions through business combinations	385.761	975	386.736
Other additions	0	173.784	173.784
Effect of movements in foreign exchange rates	(121.136)	0	(121.136)
Balance at 31 October 2005	1.417.670	852.993	2.270.663
Balance at 1 November 2005	1.417.670	852.993	2.270.663
Acquisitions through business combinations	4.134.321	13.651	4.147.972
Other additions	0	502.535	502.535
Effect of movements in foreign exchange rates	38.936	(982)	37.954
Balance at 31 October 2006	5.590.927	1.368.197	6.959.124
Amortisation and impairment losses			
Balance at 1 January 2005	107.087	172.140	279.227
Acquisitions through business combinations	0	0	0
Amortisation for the year	0	96.849	96.849
Impairment loss	5.609	0	5.609
Effect of movements in foreign exchange rates	(482)	0	(482)
Balance at 31 October 2005	112.214	268.989	381.203
Balance at 1 November 2005	112.214	268.989	381.203
Acquisitions through business combinations	0		0
Amortisation for the year	0	156.196	156.196
Impairment loss	9.135	0	9.135
Disposals			0
Effect of movements in foreign exchange rates	0	(53)	(53)
Balance at 31 October 2006	121.349	425.132	546.480
Carrying amounts			
Balance at 1 January 2005	1.045.957	506.094	1.552.051
Balance at 31 October 2005	1.305.456	584.004	1.889.460
Balance at 1 November 2005	1.305.456	584.004	1.889.460
At 31 October 2006	5.469.578	943.066	6.412.644

Amortisation and impairment charge

The amortisation is allocated to the cost of sales in the income statement.

Impairment test

At the end of the fiscal year, impairment tests were made on the company's goodwill. When evaluating the impairment, an expected cash flow, entered in present value, was used. When calculating present value, an interest rate corresponding to the weighted average of financial expenses was used, i.e. costs due to liabilities and equity, taxes provided. If fair value of the goodwill (current expected cash flow) results in being lower than the book value, the difference will be charged off. According to test results, the goodwill has suffered a impairment loss amounting to ISK 9 million during year 2006. The impairment is due to a vessel activity in the Faroe Islands.

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13. contd.:

Cash flows were projected based on the next years business plan and expected grows in the next 4 years. Cash flow for a future period are extrapolated using a constant growth rate. Management believes that a constant growth rate of 2,5% a year is close to the expected inflation for the period.

The anticipated annual revenue growth rate in the cash flow projection was 2,5%-23% for the years 2007-2011.

The discount rate of 13-14% was applied in determining the recoverable amount of the unit. The discount rate was estimated based on the companies weighted average cost of capital

The aggregated carrying amounts of goodwill allocated to each unit are as follows:

	31.10.2006	31.10.2005
Domestic	41.370	46.591
Shipping	1.680.459	633.380
International	3.747.749	625.485
Total	5.469.578	1.305.456

14. Investments in associates

The Group's share of profit in its equity accounted investees for the year was ISK 56 million (2005: loss ISK 10 million).

Summary financial information for equity accounted investees:

2005

	Ownership	Balance at the beginning of the year	Acquisitions/ sold during the year	Share in net profit / (loss) of associate	Other adjustments	Balance at the end of the year
Harbour Grace, Inc., Canada	25%	26.878		2.232	13.599	42.709
Halship Inc., Canada	49%	0		(17.306)	17.306	0
Freshport BV, Holland	25%	0			0	0
Traxx Intercontinental BV, Holland	20%	4.142		1.575	(600)	5.117
Euro Container Line AS, Norway	50%	22.928		(1.348)	(21.580)	0
Shares in 4 other associates		4.167		4.535	(5.487)	3.215
Total		58.115	0	(10.312)	3.238	51.041

2006

	Ownership	Balance at the beginning of the year	Acquisitions/ sold during the year	Share in net profit / (loss) of associate	Other adjustments	Balance at the end of the year
Daalimpex BV, Holland	40%		1.108.050	35.776	191.735	1.335.561
Harbour Grace, Inc., Canada	25%	42.709		2.254	3.512	48.475
Freshport BV, Holland	25%	0		11.243	(11.243)	0
Traxx Intercontinental BV, Holland	20%	5.117		1.709	934	7.760
Euro Container Line AS, Norway	50%	0		5.428	(5.428)	0
Shares in 2 other associates		3.215	(2.045)		432	1.602
Total		51.041	1.106.005	56.410	179.942	1.393.398

All these associates use other reporting dates than the Group and the share in net profit/loss are adjusted.

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15. Shares in other companies

Investments in other companies are specified as follows:	Share	Book value
Atlas Cold Storage Income Trust, Canada	10%	2.900.703
Shares in other 31 companies		892.697
Other companies total		3.793.400

On 31 October 2006 the Group is holding 10% of shares in Atlas Cold Storage, Canada. In November 2006 the Group acquired all shares in Atlas Cold Storage, for ISK 35,451 million. Atlas Cold Storage will be a part of the Group from the acquisition date.

16. Loan to associated companies

Loan to associated companies are specified as follows:	31.10.2006	31.10.2005
Beginning of the year	157.116	46.640
Loans during the year	182.222	134.240
Payments during the year	(20.569)	0
Share in net profit/loss of associate charged to reduction on loans granted	(138.571)	(12.771)
Currency adjustments during the year	14.605	(10.993)
	194.804	157.116
Current maturities	(6.099)	(21.002)
Loans to associated companies according to Balance Sheet	188.705	136.114

17. Long - term notes

Long - term notes are specified as follows:		
Beginning of the year	254.892	402.547
Loans during the year	18.724	122.524
Instalment during the year	(121.155)	(257.987)
Indexation and foreign exchange changes	1.364	(12.191)
	153.826	254.892
Current maturities	(72.700)	(131.629)
Long - term notes according to Balance Sheet	81.126	123.262

18. Prepayments

Prepayments principally represent operating lease rentals charged in advance by certain landlords of leased properties.

All amounts are in thousands of ISK

19. Deferred Income Tax Liability and Deferred Tax Asset

Recognised deferred income tax liabilities

	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Vessels, property and equipment	4.901	(23.230)	521.023	216.834	525.924	193.604
Intangible assets		(2.729)	3.935		3.935	(2.729)
Shares in other companies			(4.507)		(4.507)	0
Inventories			2.750	2.931	2.750	2.931
Trade and other receivables	973	(18.343)	5.563		6.536	(18.343)
Interest-bearing borrowings	(3.150)		(138)		(3.288)	0
Tax loss carry-forward ...	(92.977)	(1.909)	(121.180)	(40.090)	(214.157)	(41.999)
Tax (assets) and liabilities total	(90.253)	(46.211)	407.446	179.675	317.193	133.464

The group has a unrecognised deferred tax asset that amounts to ISK 6 million.

20. Inventories

	2006	2005
Inventories are specified as follows:		
Oil	182.246	116.974
Goods for sale	109.682	134.217
Other inventories	158.040	103.869
Total inventories	449.968	355.060

21. Trade and other receivables

Trade and other receivables are specified as follows:

Trade receivable, par value	10.852.242	5.496.013
Prepaid expense	2.183.557	59.824
Current maturities of long-term notes	89.101	152.631
Other receivables	1.913.965	626.507
Allowance for doubtful debts	(713.668)	(600.572)
Trade and other receivables total	14.325.197	5.734.403

The impairment loss recognised in the current year was ISK 203 million. (2005: ISK 35 million.)

22. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

Bank balances	6.429.924	1.659.321
Bank balance in transit	7.587.168	0
Cash and cash equivalents	14.017.092	1.659.321

The Bank balance in transit is due to the acquisition of Atlas Cold Storage Income trust and Containerships in November 2006.

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23. Capital and reserves

Share capital and share premium

	2006	2005
Share capital beginning of year	3.697.407	3.697.407
Shares issued in April 2006	200.000	0
Shares issued in October 2006	1.113.000	0
Share capital beginning of year	5.010.407	3.697.407

At 31 October 2006, the authorized share capital comprised 5,010 million ordinary shares (2005: 3,697 million). The ordinary shares have a par value of ISK 1. Shares with nominal value of ISK 1,113 million are not fully paid. All other issued shares are fully paid.

In April 2006 the share capital was increased by nominal value of ISK 200 million which was sold for ISK 1,400 million. In October 2006 the share capital was increased by nominal value of ISK 1,113 million which was sold for ISK 7,791 million, whereof ISK 6,255 million had been paid on 31 October and ISK 1,536 million was unpaid and capitalised as receivable in the Balance Sheet.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Translation reserve are specified as follows:

	2006	2005
Foreign currency translation difference for foreign operations at beginning of the year	(241.447)	(15.211)
Foreign currency translation difference for foreign operations during the year	364.215	(226.236)
Foreign currency translation difference for foreign operations October 31	122.768	(241.447)

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised.

	2006	2005
Change in fair value of listed shares	108.403	(108.403)
Income tax effect	(19.513)	19.513
Change in fair value of listed shares, after tax	88.891	(88.891)
Reserve total	211.658	(330.338)

24. Earnings per share

The calculation of basic and diluted earnings per share at 31 October 2006 was based on the loss attributable to ordinary shareholders of the parent company of ISK 251 million (2005: profit ISK 952 million) and a weighted average number of ordinary shares outstanding of 3,890 million (2005: 3,697 million), calculated as follows:

	2006	2005
Net (loss) profit the year for the stockholders of the Parent	(250.704)	952.026
Issued ordinary shares at 1 November (2005: 1 January)	3.697.407	3.697.407
Effect of shares issued in April 2006	100.000	0
Effect of shares issued in October 2006	92.750	0
Weighted average number of ordinary shares at 31 October	3.890.157	3.697.407
Basic Earnings per Share	(0,06)	0,26

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25. Interest-bearing borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to foreign currency risk, see note 28:

	2006	2005
Non-current liabilities at the end of the year consists of the following:		
Loans with collateral in fixed assets	13.204.929	7.767.387
Loans with collateral in accounts receivable and stocks	20.101	2.148.634
Unsecured bond issued, no collateral	3.437.914	3.063.228
Finance lease	193.851	232.309
Total	16.856.795	13.211.558
Current liabilities at the end of the year consists of the following:		
Current maturities of non-current liabilities	3.147.388	877.822
Credit institution	6.745.649	215.473
Loan notes	6.063.122	0
Total	15.956.159	1.093.295

	Average interest 31.10.2006	Carrying amount 31.10.2006	Average interest 31.10.2005	Carrying amount 31.10.2005
Loans in GBP	2,7%	4.820.593	2,7%	109.266
Loans in EUR	3,4%	4.263.589	3,4%	4.026.189
Loans in CHF	2,7%	2.510.212	2,3%	2.513.567
Loans in USD	6,3%	2.479.444	4,6%	2.410.710
Loans in JPY	1,7%	1.339.089	1,4%	1.383.756
Loans in NOK	4,4%	617.947	4,0%	616.320
Loans in SEK	-	0	3,3%	437.848
Loans in DKK	5,0%	672.904	5,0%	409.832
Loans in ISK	5,0%	1.494.388	5,4%	1.304.069
		18.198.166		13.211.558
Current maturities		(3.147.389)		(877.822)
		15.050.777		12.333.737

Aggregated annual maturities are as follows:

	2006	2005
Due in financial year 2006	0	877.822
Due in financial year 2007	3.147.389	636.069
Due in financial year 2008	1.464.458	3.959.945
Due in financial year 2009	3.577.500	1.603.086
Due in financial year 2010	5.336.625	564.789
Due in financial year 2011	2.690.721	590.270
Subsequent	1.981.473	4.979.578
	18.198.166	13.211.558

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25. contd.:

Finance lease liabilities

Finance lease liabilities are payable as follows:

	2006			2005		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	103.134	21.384	81.750	34.694	8.899	25.795
Between 1 and 5 years ...	337.172	17.251	319.921	122.802	7.869	114.933
More than 5 years	103.374	3.875	99.499	74.813	3.787	71.026
	543.680	42.510	501.170	232.309	20.555	211.754

26. Deferred income

Deferred income principally represent operating lease rentals charged in advance by certain landlords of leased properties. Provisions are made for onerous leases where completed properties leased by the group are either vacant or where the operating lease rentals paid exceed the rental income received under non-cancellable contracts.

27. Trade and other payables

	2006	2005
Trade and other payables are attributable to the following:		
Account payable	5.471.763	2.517.523
Other payables	5.612.620	2.167.465
Total	11.084.383	4.684.988

28. Financial instruments and risk management

Exposure to currency risks arises in the normal course of the Group's business. Derivatives are used to hedge exposure to fluctuations in foreign exchange rates.

a. *Financial risk management and hedging activities*

The principal objective of risk management is to reduce financial risk in the Group and to increase its financial stability. Eimskip risk management policy constitutes a framework of guidelines and rules covering areas such as foreign exchange, interest, vessel fuel price and use of derivatives, as well as liquidity risk.

Exposure to fuel prices, currency and interest rate risk and liquidity risk arises in the normal course of the Group's business. The Group has established formal risk management policies and guidelines that are approved by the board of directors to manage such risks. When deemed appropriate, risk exposures are reduced by the use of derivatives. Derivative financial instruments are primarily used to reduce exposure to fluctuations in fuel prices, foreign exchange rates and interest rates in line with the Group's documented risk management policies and strategy.

b. *Interest rate risk*

The Group has it's interest rate risk exposure from its debt, and lease liabilities. The Group aims to limit the interest rate risk and to achieve optimal ratios regarding fixed to float interest rate exposure and the duration of interest-bearing liabilities. The debt and leasing contracts are mainly denominated in EUR.

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28. contd.:

c. *Foreign currency risk*

Exposure to foreign exchange rates arises from transactions in currencies other than the Group's base currency, which is the ISK. The Group differentiates between risk from operations and risk from investments. The currencies giving rise to this risk are primarily the USD, GBP and the EUR, though transactions also occur in a number of other currencies. Whenever possible, internal hedging principles (matching of foreign currency in- and outflows) are applied. The Group then hedges its net transaction exposure externally in the foreign exchange markets. The Group uses forward exchange contracts and currency options to hedge its foreign currency risk.

d. *Liquidity risk*

Corporate treasury is responsible for the Group's liquidity management and funding. The Group aims to maintain sufficient reserves of cash and cash equivalents in order to meet its liquidity requirements.

Recognised assets and liabilities

The fair value of forward exchange contracts used as economic hedges of monetary assets and liabilities in foreign currencies at 31 October 2006 was ISK 758 million (2005: ISK 16 million) recognised in fair value derivatives.

Sensitivity analysis

In managing currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign exchange will have an impact on profit.

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

		2006		**2005**	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Assets		4.830.951	4.830.951	732.738	732.738
Liabilities		(5.589.617)	(5.589.617)	(716.980)	(716.980)
Unrecognised (loss) gain		(758.666)	(758.666)	15.758	15.758

Estimation of fair values

The methods used in determining the fair values of financial instruments are discussed in note 4.

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29. Operating leases

Leases as lessee

	2006	2005
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	3.761.991	92.220
Between one and five years	11.690.809	127.925
More than five years	54.651.698	0
Total	70.104.498	220.145

The Group leases a number of warehouses and trucks under operating leases. The leases typically run for a period of 5 - 25 years.

30. Contingencies

In August 2002 Eimskip's biggest competitor, Samskip hf., lodged a complaint that Eimskip had violated Article 11 of the Icelandic Competition Act on prohibition on abuse of a dominant position. The Competition Authority carried out an inspection at Eimskip's headquarters in September 2002 and obtained documents and electronic data as part of a probe into the allegations. In May 2006 the Competition Authority invited Eimskip to submit its comments on the Authority's initial view of the case where the Authority stated that Eimskip hat abused dominant position. Comments were submitted in August. One of the issues addressed in Eimskip's comments was the question of who should be liable for paying potential fines if fines were to be paid to all. Due to restructuring/demerger of Burðarás hf., Eimskip's former parent company, the company is of the opinion that it could not be held liable for fines.

The case is still pending but a decision of the Competition Authority is expected in early 2007. It is to be expected that the Authority will impose sanctions but the amount of possible fines is uncertain and also at whom the decision will be addressed.

31. Related parties

The Company's related parties are subsidiaries (see note 32), associated companies (see note 14), parent company (see note 1) and sister companies.

In the fiscal year, associated companies acquired service from the parent company for ISK 73 million (2005: ISK 16 million) and the parent company acquired service from associated companies for ISK 69 million (2005: ISK 27 million). At the end of the fiscal year, the associated companies owed the parent company a total of ISK 6 million (2005: ISK 157 million). The value of transactions with associates is based on market value. Associated companies paid no dividend during the year.

During the year the Group purchase no service from a sister companies (2005: ISK 60 million). At year-end the sister companies in the Group owed the Company ISK 4 million (2005: ISK 16 million) and the Company owed its sister companies nothing (2005: ISK 60 million).

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32. Group entities

At year-end the Company owned directly ten subsidiaries that are all included in the consolidation. The direct subsidiaries further owned 66 subsidiaries at year-end. The subsidiaries that are included in the Group are as follows:

	Country of incorporation	Ownership Interest 2006	2005
TVG - Zimsen ehf.	Iceland	100%	100%
Norðurfrakt ehf.	Iceland	52%	70%
Alli Geira hf.	Iceland	51%	51%
Eimskip Transport GmbH	Germany	100%	100%
Eimskip USA Inc.	USA	100%	100%
Eimskip UK Ltd.	England	100%	100%
Eimskip Nederland BV	Holland	100%	100%
P/F Faroe Ship	Faroe Islands	100%	100%
P/F Heri Thomsen	Faroe Islands	100%	-
Kursiu Linija UAB	Lithuania	100%	-

33. Subsequent event

In November 2006 the subsidiary Eimskip Atlas Canada acquired all outstanding shares of Atlas Cold Storage Income Trust, in Canada for ISK 38,350 million. In November 2006 Eimskip acquired 65% of the shares in Containerships Ltd. Oy, in Finland for ISK 2,598 million.

In January 2006 the Group acquired 40% of shares in Daalimpex BV, in Nederland and in January 2007 60% of the shares. Total payment for the shares was ISK 3,200 million. Daalimpex BV will be part of the Group from January 1, 2007.

34. Financial Ratios

The Group's principal financial ratios:

	2006	2005
Income Statement:	1.11.-31.10.	1.1-31.10.
Expenses/revenue	91,0%	90.8%
Administrative expenses/revenue	3,8%	5.34%
Net earnings for the year/revenue	(0,4%)	4.1%
Balance Sheet	31.10.2006	31.10.2005
Current ratio - current assets/current liabilities	1,16	1,42
Equity ratio - stockholders' equity/total assets	29,1%	28,5%

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Unauditied information

Quarterly Statements

The Company's operations are specified as follows according to quarters:

	Q 1 2005	Q 2 2005	Q 3 * 2005	Total 2005
Revenue	6.101.653	7.657.359	10.259.794	24.018.806
Expenses	(5.704.562)	(6.693.113)	(9.407.655)	(21.805.330)
Gross profit	397.091	964.246	852.139	2.213.476
Other operating income	102.251	53.996	191.439	347.686
Administrative expenses	(388.255)	(377.690)	(517.947)	(1.283.892)
Operating profit	111.087	640.552	525.631	1.277.270
Financial income and expenses	(1.753)	(296.911)	228.732	(69.932)
Share of the profit of associates	0	5.867	(16.179)	(10.312)
Pre-tax profit	109.334	349.508	738.185	1.197.027
Income tax	(31.078)	(71.140)	(110.046)	(212.264)
Net earnings for the year	78.256	278.368	628.138	984.763
EBITDA	489.641	1.042.056	1.083.438	2.615.134

* As a result of changes in the operating year of the Group there are 4 months (1.7. - 31.10.) taken together in the 3rd quarter in the summary above.

	Q 1 2006	Q 2 2006	Q 3 2006	Q 4 2006	Total 2006
Revenue	6.702.674	8.978.874	10.285.174	16.470.308	42.437.030
Transportation expenses	(6.279.555)	(7.887.338)	(9.103.130)	(15.360.613)	(38.630.637)
Gross profit	423.119	1.091.536	1.182.044	1.109.695	3.806.394
Gain on sale of assets	325.469	57.033	151.567	(114.183)	419.886
Administrative expenses	(393.279)	(375.163)	(386.580)	(474.332)	(1.629.354)
Operating profit	355.310	773.406	947.031	521.179	2.596.926
Financial income and expenses	(276.250)	(2.367.599)	(209.095)	187.059	(2.665.885)
Share of the profit of associates	(2.243)	19.116	9.264	30.273	56.410
Pre-tax profit	76.817	(1.575.078)	747.200	738.512	(12.549)
Income tax	(79.093)	199.618	(101.140)	(193.982)	(174.597)
Net earnings for the year	(2.276)	(1.375.460)	646.060	544.530	(187.146)
EBITDA	764.742	1.181.748	1.448.701	1.073.739	4.468.931

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