



Eimskipafélag Íslands hf.
Consolidated Financial Statements
for the year ended 31 December 2016
EUR

Eimskipafélag Íslands hf.
Korngardar 2
104 Reykjavík
Iceland

Reg. no. 690409-0460

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Endorsement and Statement by the Board of Directors and the CEO

Operations and significant matters in 2016

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

The Annual General Meeting of Eimskip approved on 17 March 2016 a dividend payment to shareholders of ISK 6.50 per share. The total dividend payment amounted to ISK 1,213.2 million or EUR 8.6 million. The payment date was 14 April 2016.

In October 2016 Eimskip purchased all shares in the company Extraco Internationale Expeditie B.V. in the Netherlands. The purchase was closed in October. In November 2016 Eimskip signed an agreement to acquire the Norwegian shipping and logistics company Nor Lines AS. The purchase is subject to approval by the Norwegian Competition Authority. In February 2017 the authority gave a notice of objection to the acquisition as a preliminary conclusion. A final decision is expected in the beginning of the second quarter of 2017.

Net earnings for the year 2016 amounted to EUR 21.9 million (2015: EUR 17.8 million) according to the Consolidated Income Statement. Total equity at 31 December 2016 amounted to EUR 243.8 million (2015: EUR 228.1 million) according to the Statement of Financial Position.

The Board of Directors proposes a dividend payment to shareholders in 2017 in the amount of ISK 6.80 per share. The proposed dividend payment is ISK 1,269.1 million, or EUR 11.0 million, which represents 50% of net earnings for the year 2016.

Corporate Governance

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

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

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

Non-Financial Reporting

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

Share capital and articles of association

The nominal value of the Company's issued share capital amounts to ISK 200.0 million of which the Company held treasury shares of ISK 13.4 million at year-end 2016 which is equal to 6.68% of issued shares. The amount of treasury shares remained unchanged from the year end 2015. The share capital is divided into shares of ISK 1 each with equal rights within a single class of shares listed on the Icelandic Stock Exchange (Nasdaq Iceland). Companies can acquire and hold up to 10% of the nominal value of the their shares according to the Icelandic Company's Act.

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

Endorsement and Statement by the Board of Directors and the CEO

Further information on matters related to the share capital is disclosed in note 14. Additional information on shareholders is provided on the Company's website, www.eimskip.is/investors. The number of shareholders at year-end 2016 was 806 which was a decrease of 149 from the beginning of year.

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

Shareholder:	2016		2015	
	Number of shares	Shares in %	Number of shares	Shares in %
1. Yucaipa American Alliance Fund II, LP.*	30,504,030	16.34%	30,504,030	16.34%
2. Lífeyrissjóður verzlunarmanna	27,485,070	14.73%	28,435,070	15.24%
3. Yucaipa American Alliance (Parallel), Fund II LP.*	20,095,970	10.77%	20,095,970	10.77%
4. Gildi - lífeyrissjóður	18,846,139	10.10%	8,085,462	4.33%
5. Lífeyrissjóður starfsmanna ríkisins A-deild**	11,200,000	6.00%	14,070,000	7.54%
6. Stapi lífeyrissjóður	10,092,555	5.41%	5,118,769	2.74%
7. J.P. Morgan Clearing Corporation	7,672,360	4.11%	7,672,360	4.11%
8. Sameinadi lífeyrissjóðurinn	5,379,852	2.88%	5,611,062	3.01%
9. Sjóvá-Almennar tryggingar hf.	5,017,349	2.69%	145,191	0.08%
10. Lífeyrissjóður starfsmanna ríkisins B-deild**	4,080,000	2.19%	5,125,500	2.75%
11. Söfnunarsjóður lífeyrisréttinda	3,102,823	1.66%	3,252,823	1.74%
12. Festa - lífeyrissjóður	2,937,005	1.57%	2,371,823	1.27%
Other shareholders	40,226,077	21.55%	56,151,170	30.09%
Total outstanding shares	186,639,230	100.00%	186,639,230	100.00%
Treasury shares	13,360,770		13,360,770	
Total issued shares	200,000,000		200,000,000	

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

***) Lífeyrissjóður starfsmanna ríkisins with total shareholding of 8.2%

Statement by the Board of Directors and the CEO

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

According to the best of our knowledge, it is our opinion that these annual Consolidated Financial Statements give a true and fair view of the consolidated financial performance of Eimskip for the year 2016, its assets, liabilities and consolidated financial position as at 31 December 2016 and its consolidated cash flows for the year 2016.

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

The Board of Directors and the CEO have today discussed the Consolidated Financial Statements of Eimskipafélag Íslands hf. for the year 2016 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the Consolidated Financial Statements will be approved at the Annual General Meeting of Eimskipafélag Íslands hf.

Reykjavík, 23 February 2017

Board of Directors:

Richard Winston Mark d'Abo, Chairman

Víglundur Thorsteinsson

Helga Melkorka Óttarsdóttir

Hrund Rudolfsdóttir

Lárus L. Blöndal

CEO:

Gylfi Sigfússon

Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the Consolidated Financial Statements of Eimskipafélag Íslands hf. (the Group), which comprise the Consolidated Statement of Financial Position as at 31 December 2016, and the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional Icelandic disclosure requirements for listed companies in Iceland.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters

How the matter was addressed in our audit

Revenue Recognition

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

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

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

We have performed the following procedures to address this risk:

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

Independent Auditors' Report

Key Audit Matters

Carrying value of Vessels

In accordance with IAS 36, Impairment of assets, management have performed an assessment of any impairment indicators and their subsequent impact on the carrying value of vessels.

There are a number of key judgments in determining the impairment indicators and, if applicable, the recoverable amount including assumptions under pinning forecast revenue growth, profitability and cash flows, together with the discount rates applied to those forecasts. Therefore value of vessels is a key audit matter.

The Group's accounting policy for vessels is described in note 25.d to the Consolidated Financial Statements.

How the matter was addressed in our audit

We have performed the following procedures to address this risk:

- We challenged the models used by management, within the annual impairment assessment for vessels in use, through benchmarking to independently available data and through detailed challenge of the reasonableness of underlying assumptions supporting the cash flow projections, including reference to historical accuracy of forecasting, discount rates and sensitivity analysis performed by management.
- In addition, valuation specialists within the audit team provided additional challenge over the discount rate applied to these cash flows through the use of external confirmation and benchmarking.
- We checked the arithmetical accuracy of the impairment model and assessed the appropriateness and sufficiency of the disclosure in the financial statements.

Other Information

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

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

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

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

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

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

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

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

Independent Auditors' Report

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

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

Reykjavik, 23 February 2017

KPMG ehf.

Sæmundur Valdimarsson
Hrafnhildur Helgadóttir

Consolidated Income Statement for the year 2016

	Notes	2016	2015
Revenue			
Operating revenue	4	513,922	499,581
Expenses			
Operating expenses	4	340,640	358,325
Salaries and related expenses	5	119,807	96,059
		460,447	454,384
Operating profit, EBITDA		53,475	45,197
Depreciation and amortization	8,9	(28,077)	(24,729)
Results from operating activities, EBIT		25,398	20,468
Finance income		1,021	686
Finance expense		(3,857)	(3,788)
Net foreign currency exchange gain		2,491	3,521
Net finance (expense) income	6	(345)	419
Share of earnings of associated companies	11	210	331
Net earnings before income tax		25,263	21,218
Income tax	7	(3,368)	(3,416)
Net earnings for the year		21,895	17,802
Net earnings for the year attributable to:			
Equity holders of the Company		21,420	17,343
Non-controlling interest		475	459
		21,895	17,802
Earnings per share:			
Basic and diluted earnings per share (EUR per share)	15	0.1148	0.0929

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

Consolidated Statement of Comprehensive Income for the year 2016

	Notes	2016	2015
Net earnings for the year		21,895	17,802
Other comprehensive income:			
Items that may subsequently be reclassified to the income statement			
Foreign currency translation difference of foreign operations		2,275	127
Total comprehensive income for the year		24,170	17,929
Total comprehensive income for the year attributable to:			
Equity holders of the Company		23,647	17,384
Non-controlling interest		523	545
		24,170	17,929

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

Consolidated Statement of Financial Position

as at 31 December 2016

	Notes	2016	2015
Assets:			
Property, vessels and equipment	8	202,912	198,312
Intangible assets	9,10	41,558	26,209
Investment in associated companies	11	2,871	2,609
Unlisted shares		271	127
Deferred tax assets	12	5,644	6,023
Total non-current assets		253,256	233,280
Inventories		2,281	1,983
Trade and other receivables	13,18	96,611	83,911
Cash and cash equivalents		39,543	35,983
Total current assets		138,435	121,877
Total assets		391,691	355,157
Equity:			
Share capital		1,165	1,165
Share premium		154,726	154,726
Translation reserve		(62)	(2,289)
Undistributed profits		9,866	0
Retained earnings		73,725	70,781
Total equity attributable to equity holders of the parent company	14	239,420	224,383
Non-controlling interest		4,355	3,741
Total equity		243,775	228,124
Liabilities:			
Loans and borrowings	16	62,105	54,999
Deferred tax liability	12	2,351	551
Total non-current liabilities		64,456	55,550
Loans and borrowings	16	19,044	16,402
Trade and other payables	17	64,416	55,081
Total current liabilities		83,460	71,483
Total liabilities		147,916	127,033
Total equity and liabilities		391,691	355,157

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

Consolidated Statement of Changes in Equity for the year ended 31 December 2016

	Attributable to equity holders of the Company						Non-controlling interest	Total equity
	Share capital	Share premium	Translation reserve	Un-distributed profits	Retained earnings	Total		
Changes in Equity 2015:								
Equity at 1 January 2015	1,165	154,726	(2,330)	0	59,729	213,290	3,182	216,472
Dividend paid (0.0337 EUR per share)					(6,291)	(6,291)		(6,291)
Changes in non-controlling interest						0	14	14
Total comprehensive income for the year			41		17,343	17,384	545	17,929
Equity at 31 December 2015	1,165	154,726	(2,289)	0	70,781	224,383	3,741	228,124
Changes in Equity 2016:								
Equity at 1 January 2016	1,165	154,726	(2,289)	0	70,781	224,383	3,741	228,124
Dividend paid (0.0461 EUR per share)					(8,610)	(8,610)		(8,610)
Changes in non-controlling interest						0	91	91
Total comprehensive income for the year			2,227		21,420	23,647	523	24,170
Profit of subsidiaries net of dividend received				9,866	(9,866)	0		0
Equity at 31 December 2016	1,165	154,726	(62)	9,866	73,725	239,420	4,355	243,775

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2016

	Notes	2016	2015
Cash flows from operating activities:			
Net earnings for the year		21,895	17,802
Adjustments for:			
Depreciation and amortization	8,9	28,077	24,729
Net finance expense (income)	6	345	(419)
Share of earnings of associated companies	11	(210)	(331)
Change in deferred taxes	7,12	531	1,246
Other changes		(898)	(3,360)
		49,740	39,667
Changes in current assets and liabilities:			
Inventories, change		(267)	634
Receivables, change		(1,348)	(3,815)
Payables, change		4,491	4,914
Change in current assets and liabilities		2,876	1,733
Interest paid		(3,728)	(3,684)
Interest received		724	506
Taxes paid		(945)	(865)
Net cash from operating activities		48,667	37,357
Cash flows used in investing activities:			
Acquisition of property, vessels and equipment	8,9	(27,742)	(40,940)
Acquisition of intangible assets		(3,908)	(3,956)
Proceeds from the sale of property, vessels and equipment		3,109	16,539
Investment in subsidiaries net of cash acquired	10	(11,307)	(7,011)
Dividend received		81	162
Unlisted shares, change		(140)	0
Net cash used in investing activities		(39,907)	(35,206)
Cash flows used in financing activities:			
Dividend paid		(8,610)	(6,291)
Changes in non-controlling interest		91	14
Proceeds from non-current loans and borrowings		13,324	19,824
Repayment of non-current loans and borrowings		(9,566)	(18,720)
Net cash used in financing activities		(4,761)	(5,173)
Changes in cash and cash equivalents		3,999	(3,022)
Cash and cash equivalents at the beginning of the year		35,983	39,539
Effects of exchange rate fluctuations on cash held		(439)	(534)
Cash and cash equivalents at year-end		39,543	35,983
Investing and financing activities not affecting cash flows:			
Acquisition of property, vessels, equipment and intangible assets	8,9	(2,728)	(3,363)
Proceeds from non-current loans and borrowings		2,728	3,363

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

Notes to the Consolidated Financial Statements

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Notes to the Consolidated Financial Statements

1. Reporting entity

Eimskipafélag Íslands hf. (the "Company" or the "Parent Company") is a public limited liability company domiciled in Iceland. The address of the Company's registered office is Korngardar 2, 104 Reykjavík. The Consolidated Financial Statements of the Company for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as "Eimskip" or the "Group"). The Parent Company is an investment company focused on investments in shipping and logistic services. The Company's shares are listed on Nasdaq Iceland.

2. Basis of accounting

a. Statement of compliance

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

The financial statements were approved and authorized for issue by the Company's Board of Directors on 23 February 2017.

b. Basis of measurement

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

c. Functional and presentation currency

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

d. Use of estimates and judgements

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

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

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

Note 10 – Investment in subsidiaries

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

Note 13 – Trade and other receivables

3. Measurement of fair values

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

4. Segment reporting

Business segments

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

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

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

Notes

4. Segment reporting, continued

Business segments

	Liner services	Forwarding services	Consoli- dated
For the year 2016			
Revenue, external	380,296	133,626	513,922
Inter-segment revenue	35,427	45,959	81,386
Total	415,723	179,585	595,308
Expenses, external	(327,322)	(133,125)	(460,447)
Inter-segment expense	(45,959)	(35,427)	(81,386)
EBITDA	42,442	11,033	53,475
Depreciation and amortization	(25,627)	(2,450)	(28,077)
EBIT	16,815	8,583	25,398
Net finance income (expense)	(79)	(266)	(345)
Share of earnings of associated companies	334	(124)	210
Income tax	(555)	(2,813)	(3,368)
Net earnings for the year	16,515	5,380	21,895
Segment assets	328,353	63,338	391,691
Segment liabilities	119,723	28,193	147,916
Capital expenditure	33,270	1,108	34,378
For the year 2015			
Revenue, external	358,026	141,555	499,581
Inter-segment revenue	28,557	37,570	66,127
Total	386,583	179,125	565,708
Expenses, external	(313,187)	(141,197)	(454,384)
Inter-segment expense	(37,570)	(28,557)	(66,127)
EBITDA	35,826	9,371	45,197
Depreciation and amortization	(23,219)	(1,510)	(24,729)
EBIT	12,607	7,861	20,468
Net finance income	(59)	478	419
Share of earnings of associated companies	152	179	331
Income tax	(550)	(2,866)	(3,416)
Net earnings for the year	12,150	5,652	17,802
Segment assets	298,129	57,028	355,157
Segment liabilities	98,286	28,747	127,033
Capital expenditure	45,517	2,742	48,259

Geographical segments

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

	North Atlantic	Other territories	Consoli- dated
For the year 2016			
Revenue, external	472,667	41,255	513,922
Segment assets	375,808	15,883	391,691
Capital expenditure	34,307	71	34,378
For the year 2015			
Revenue, external	446,977	52,604	499,581
Segment assets	335,418	19,739	355,157
Capital expenditure	48,259	0	48,259

Notes

5. Salaries and related expenses

Salaries and related expenses are specified as follows:

	2016	2015
Salaries	97,957	78,753
Defined pension contribution plan	8,458	6,409
Other related expenses	13,392	10,897
Salaries and related expenses	119,807	96,059
Average number of full-time equivalents during the year	1,598	1,512
Average number of employees	1,632	1,545
Number of employees at year-end	1,678	1,576

6. Finance income and expense

Finance income is specified as follows:

Interest income	935	631
Dividend received	86	55
Finance income	1,021	686

Finance expense is specified as follows:

Interest on long-term loans	(2,837)	(2,970)
Other finance expense	(1,020)	(818)
Finance expense	(3,857)	(3,788)

Net foreign currency exchange gain	2,491	3,521
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Net finance (expense) income	(345)	419
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7. Income tax

(i) Income tax recognized in the income statement:

Current tax expense:

Current period	2,751	2,188
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Deferred tax:

Origination and reversal of temporary differences	634	1,307
Other changes	(17)	(79)

	617	1,228
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Total income tax	3,368	3,416
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(ii) Reconciliation of effective income tax rate:

	2016		2015	
Net earnings before income tax		25,263		21,218
Income tax using the Company's domestic tax rate	20.0%	5,053	20.0%	4,244
Effect of tax rates in foreign jurisdictions	(2.5%)	(640)	(5.6%)	(1,179)
Under or over provided in previous years	0.0%	(9)	0.3%	1
Other changes	(4.1%)	(1,036)	1.6%	350
Effective income tax rate	13.3%	3,368	16.1%	3,416

Notes

8. Property, vessels and equipment

Property, vessels and equipment are specified as follows:

	Land and buildings	Vessels	Vessels under construction	Containers and equipment	Total
Cost					
Balance at 1 January 2015	70,903	116,565	11,410	81,616	280,494
Reclassification of assets	487	0	0	(501)	(14)
Additions in acquisition	0	2,660	0	325	2,985
Additions	1,301	8,584	444	33,974	44,303
Disposals	(382)	0	(11,854)	(4,663)	(16,899)
Currency adjustments	(214)	1,463	0	73	1,322
Balance at 31 December 2015	72,095	129,272	0	110,824	312,191
Balance at 1 January 2016	72,095	129,272	0	110,824	312,191
Reclassification of assets	10,161	(433)	0	(10,168)	(440)
Additions in acquisition	0	0	0	720	720
Additions	4,253	3,185	0	23,032	30,470
Disposals	(149)	(12,448)	0	(2,730)	(15,327)
Currency adjustments	1,047	1,924	0	216	3,187
Balance at 31 December 2016	87,407	121,500	0	121,894	330,801
Depreciation					
Balance at 1 January 2015	15,215	43,718	0	36,177	95,110
Additions in acquisition	0	507	0	162	669
Disposals	(346)	0	0	(3,192)	(3,538)
Depreciation	3,021	8,472	0	10,551	22,044
Currency adjustments	(327)	(111)	0	32	(406)
Balance at 31 December 2015	17,563	52,586	0	43,730	113,879
Balance at 1 January 2016	17,563	52,586	0	43,730	113,879
Reclassified assets	2	0	0	(2)	0
Additions in acquisition	0	0	0	394	394
Disposals	(59)	(10,807)	0	(2,208)	(13,074)
Depreciation	3,422	9,334	0	12,976	25,732
Currency adjustments	353	387	0	218	958
Balance at 31 December 2016	21,281	51,500	0	55,108	127,889
Carrying amounts					
At 1 January 2015	55,688	72,847	11,410	45,439	185,384
At 31 December 2015	54,532	76,686	0	67,094	198,312
At 31 December 2016	66,126	70,000	0	66,786	202,912
Finance leases					

As part of Eirskip's activities, customary leasing agreements are entered into, especially with regard to the chartering of vessels and leasing of containers and other equipment. In some cases, the leasing agreements comprise purchase options and options for extension of the lease term. In the Consolidated Financial Statements, assets held under finance leases are recognized in the same way as owned assets. The carrying amount of assets under finance leases at year end 2016 amounted to EUR 8.5 million (2015: EUR 7.4 million). The commitment according to the lease agreements at the same time amounted to EUR 7.7 million (2015: EUR 6.5 million). The assets held under finance leases are all equipment.

Notes

8. Property, vessels and equipment, continued

Pledges

Property, vessels and equipment with a carrying amount of EUR 66.2 million (2015: EUR 73.2 million) have been pledged as security for loans amounting to EUR 81.1 million (2015: EUR 71.4 million) at year-end.

9. Intangible assets

Intangible assets and amortization are specified as follows:

	Goodwill	Brand name	Software	Market and customer related	Total
Cost					
Balance at 1 January 2015	0	14,003	15,006	3,466	32,475
Reclassification of assets	0	0	14	0	14
Additions in acquisition	2,894	1,190	0	1,788	5,872
Additions	0	0	2,264	1,692	3,956
Currency adjustments	(53)	(73)	18	(208)	(316)
Balance at 31 December 2015	2,841	15,120	17,302	6,738	42,001
Balance at 1 January 2016	2,841	15,120	17,302	6,738	42,001
Reclassification of assets	(756)	0	(199)	1,377	422
Additions in acquisition	6,647	0	0	5,830	12,477
Additions	158	0	3,908	0	4,066
Currency adjustments	403	34	13	113	563
Balance at 31 December 2016	9,293	15,154	21,024	14,058	59,529
Amortization					
Balance at 1 January 2015	0	0	11,665	1,427	13,092
Amortization	0	0	2,197	488	2,685
Currency adjustments	0	0	17	(2)	15
Balance at 31 December 2015	0	0	13,879	1,913	15,792
Balance at 1 January 2016	0	0	13,879	1,913	15,792
Reclassified assets	0	0	(199)	0	(199)
Amortization	0	0	1,583	762	2,345
Currency adjustments	0	0	7	26	33
Balance at 31 December 2016	0	0	15,270	2,701	17,971
Carrying amounts					
At 1 January 2015	0	14,003	3,341	2,039	19,383
At 31 December 2015	2,841	15,120	3,423	4,825	26,209
At 31 December 2016	9,293	15,154	5,754	11,357	41,558

Amortization

Intangible assets other than goodwill and brand names are stated at cost less accumulated amortization.

The carrying amount of goodwill and brand names is stated at allocated amount and is tested annually for impairment. No impairment has been recognized.

10. Investment in subsidiaries

During the year the Group acquired the company Extraco Internationale Expeditie B.V. The acquisition was accounted for by applying the purchase method. Pre-acquisition carrying amounts were determined based on applicable IFRS standards immediately before the acquisition. The values of assets and liabilities recognized on acquisition are their estimated fair values. Purchase price allocation of calculated goodwill on acquisition has been finalized for the acquisition of Sæferdir ehf. in 2015 as well as Extraco Internationale Expeditie B.V. The following table describes the recognized values on acquisition.

Notes

10. Investment in subsidiaries, continued

	Pre-acquisition carrying amounts	Fair value adjustment	Recognized values on acquisition
Property, vessels and equipment	280	0	280
Intangible assets	0	5,830	5,830
Goodwill	0	6,647	6,647
Trade and other receivables	3,245		3,245
Cash and cash equivalents	1,406		1,406
Deferred tax liability	0	(1,457)	(1,457)
Trade and other payables	(3,050)		(3,050)
Net identifiable assets and liabilities	1,881	11,020	12,901
Non-controlling interest	(188)	0	(188)
Calculated goodwill on acquisition	11,020	(11,020)	0
Total purchase price on acquisition	12,713	0	12,713

11. Investment in associated companies

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

	Ownership	Share of earnings 2016	Share of earnings 2015	Book value 2016	Book value 2015
Qingdao Port Eimskip					
Coldchain Log. Co. Ltd., China	30.0%	(124)	179	875	1,036
Truenorth Ísland ehf., Iceland	31.9%	262	87	1,041	703
P/F í Ánunum, The Faroe Islands	50.0%	60	41	751	688
Hammerfest Fryseterterminal AS, Norway	20.5%	12	24	204	182
		210	331	2,871	2,609

12. Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

	Assets	Liabilities	Net
2016			
Property, vessels and equipment	284	(925)	(641)
Intangible assets	4	(1,832)	(1,828)
Current assets	2,239	(17)	2,222
Current liabilities	15	0	15
Other	53	(333)	(280)
Tax loss carried-forward	3,805	0	3,805
Total tax assets (liabilities)	6,400	(3,107)	3,293
Set off tax	(756)	756	0
Net tax assets	5,644	(2,351)	3,293
2015			
Property, vessels and equipment	640	(732)	(92)
Intangible assets	4	(193)	(189)
Current assets	1,574	(7)	1,567
Current liabilities	26	10	36
Other	5	(599)	(595)
Tax loss carried-forward	4,744	0	4,745
Total tax assets (liabilities)	6,993	(1,521)	5,472
Set off tax	(970)	970	0
Net tax assets	6,023	(551)	5,472

Notes

12. Deferred tax assets and liabilities, continued

The Group has tax losses carried-forward that have not been recognized. If those tax losses carried-forward would be recognized, deferred tax asset would increase by 3.5 million EUR (2015: 1.4 million).

13. Trade and other receivables

	2016	2015
Trade and other receivables are specified as follows:		
Trade receivables	84,961	77,859
Restricted cash	3,119	1,763
Other receivables	8,531	4,289
Trade and other receivables total	<u>96,611</u>	<u>83,911</u>

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

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

Balance at beginning of year	(9,246)	(7,349)
Write-offs	95	594
Changes in allowance for impairment losses	(3,077)	(2,491)
Balance at year-end	<u>(12,228)</u>	<u>(9,246)</u>

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

14. Capital and reserves

Share capital

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

Total outstanding shares were 186,639,230 at the year-end and have remained unchanged from the beginning of 2015. The EUR amount of capital stock was 1.2 million at year-end 2016.

Shares issued to A1988 hf.

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

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

Share premium

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

Translation reserve

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

Undistributed profits

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

Notes

14. Capital and reserves, continued

Dividend

The Board of Directors has approved the following dividend policy: "The policy of Eimskipafélag Íslands hf. is to pay annual dividend that equals an amount in the range of 10-50% of net profit after taxes. Decisions on dividend payment, and the exact amount, are subject to the Company's future investment plans, market outlook and satisfactory capital structure at any given time."

According to a resolution made on the Company's 2016 annual General Meeting, a dividend of EUR 8.5 million or ISK 6.50 per share, was paid out to shareholders, which represented 47.9% of net earnings for the year 2015. According to a resolution made on the Company's 2015 Annual General Meeting, dividend in the amount of EUR 6.3 million or ISK 5.00 per share, was paid to shareholders, which represented 45.7% of the Company's profits for the year 2014.

Treasury shares are not entitled to receive dividend. The Board of Directors proposes a dividend payment to shareholders in 2017 in the amount of ISK 6.80 per share. The proposed dividend payment is ISK 1,269.1 million, or EUR 11.0 million, which represents 50% of net earnings for the year 2016.

15. Earnings per share

Basic and diluted earnings per share

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

	2016	2015
Net earnings attributable to equity holders of the Company	21,420	17,343
Number of issued shares at 1 January	200,000	200,000
Effect of treasury shares	(13,361)	(13,361)
Weighted average number of outstanding shares at 31 December	186,639	186,639
Basic and diluted earnings per share (EUR)	0.1148	0.0929

16. Loans and borrowings

This note provides information on the contractual terms of Eimskip's interest bearing loans and borrowings. For more information about Eimskip's exposure to foreign currency risk, see note 17:

Non-current loans and borrowings consist of the following:

	2016	2015
Secured bank loans	73,962	65,273
Finance lease liabilities	7,187	6,128
Total loans and borrowings	81,149	71,401
Current maturities of secured bank loans	(15,784)	(13,703)
Finance lease liabilities payable within one year	(3,260)	(2,699)
	(19,044)	(16,402)
Non-current loans and borrowings	62,105	54,999

The loan agreements of the Eimskip contain restrictive covenants. At year-end 2016 and 2015 Eimskip complied with all restrictive covenants.

Secured bank loans

Secured bank loans are payable as follows:

	2016		2015	
	Nominal interest	Carrying amount	Nominal interest	Carrying amount
Loans in EUR	2.9%	52,627	3.0%	44,284
Loans in USD	2.7%	9,250	2.6%	10,165
Loans in ISK	7.0%	10,384	7.1%	9,794
Loans in other currencies	-	1,701	-	1,030
Total secured bank loans		73,962		65,273

Notes

16. Loans and borrowings, continued

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

	2016	2015
On demand or within 12 months	15,784	13,703
12 - 24 months	16,493	5,485
24 - 36 months	5,446	5,390
36 - 48 months	3,986	5,361
48 - 60 months	5,393	3,878
After 60 months	26,860	31,456
Total secured bank loans	73,962	65,273

Finance lease liabilities

Finance lease liabilities are payable as follows:

	2016		2015	
	Minimum lease payments	Principal	Minimum lease payments	Principal
Less than one year	3,631	3,260	3,015	2,699
Between one and five years	4,241	3,821	3,675	3,429
More than five years	110	106	0	0
Total	7,982	7,187	6,690	6,128

17. Trade and other payables

Trade and other payables are attributable to the following:

	2016	2015
Trade payables	37,530	33,908
Income tax payable	1,068	749
Other payables	25,818	20,424
Total	64,416	55,081

18. Financial risk management

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

Risk management framework

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

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

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

(i) Credit risk

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

Notes

18. Financial risk management, continued

Trade and other receivables

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

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

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

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

Exposure to credit risk

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

	Note	2016 Carrying amount	2015 Carrying amount
Trade and other receivables	12	96,611	83,911
Cash and cash equivalents		39,543	35,983
Total		136,154	119,894

At year-end 2016 and 2015 there were no significant concentration of credit risk for trade and other receivables by individual counterparties or individual countries.

Impairment risk

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

	Gross 2016	Impairment 2016	Gross 2015	Impairment 2015
Not past due	71,420	(646)	61,038	(171)
Past due 1 - 90 days	22,080	(1,569)	20,737	(2,411)
Past due 91 - 180 days	4,044	(1,481)	4,161	(2,007)
More than 180 days	11,295	(8,532)	7,221	(4,657)
Total	108,839	(12,228)	93,157	(9,246)

(ii) Liquidity risk

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

Notes

18. Financial risk management, continued

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

Financial liabilities	Carrying amount	Contractual cash flow	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
31.12.2016						
Secured bank loans	73,962	84,422	16,989	18,362	18,065	31,006
Finance lease liabilities	7,187	7,982	3,631	1,946	2,295	110
Trade and other payables	64,416	64,416	64,416	0	0	0
Total	145,565	156,820	85,036	20,308	20,360	31,116
31.12.2015						
Secured bank loans	65,273	77,006	16,491	6,869	6,705	46,941
Finance lease liabilities	6,128	6,690	3,015	2,255	945	474
Trade and other payables	55,081	55,081	55,081	0	0	0
Total	126,482	138,777	74,587	9,124	7,650	47,415

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

(iii) Market risk

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

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in currencies other than the respective functional currencies of the Group entities. At year-end 2016 the primary risks are attached to the US Dollar (USD), the Euro (EUR) and the Japanese Yen (JPY) but also the Icelandic Krona (ISK) as can be seen in the table below.

Exposure to currency risk

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

31 December 2016	USD	ISK	EUR	JPY	Other
Trade and other receivables	16,886	27,361	1,110	1,239	4,076
Cash and cash equivalents	9,702	5,307	2,160	5	791
Loans and borrowings	0 (	15,330) (	992)	0 (	616)
Trade and other payables	(7,340)	(23,592)	(823)	(5)	(4,754)
Net balance sheet exposure	19,248	(6,254)	1,455	1,239	(503)
31 December 2015					
Trade and other receivables	11,100	19,340	6,367	1,159	5,289
Cash and cash equivalents	11,063 (	354)	695	16	3,361
Loans and borrowings	(15)	(12,308)	0 (	198)	(281)
Trade and other payables	(2,922)	(16,265)	(6,067)	(4)	(4,122)
Net balance sheet exposure	19,226	(9,587)	995	973	4,247

Notes

18. Financial risk management, continued

Sensitivity analysis

A 10% strengthening of the EUR against the following currencies at 31 December 2016 would have changed result after income tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for the year 2015.

	2016	2015
USD	(1,485)	(1,499)
ISK	488	374
EUR	121	285
JPY	(99)	(78)

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

The following significant exchange rates were applied during the year:

EUR:	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
USD	1.1072	1.1094	1.0541	1.0887
ISK	133.7192	146.3516	119.2000	141.3000
RMB	7.3483	6.9696	7.3202	7.0608
JPY	120.1215	134.2860	123.4000	131.0700
PLN	4.3620	4.1812	4.4103	4.2639

Interest rate risk

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

	Carrying amount	
	2016	2015
Variable rate instruments		
Financial assets	39,543	35,983
Financial liabilities	(81,149)	(71,401)
Net exposure	(41,606)	(35,418)

A change of 100 basis points in interest rates at the reporting date would increase (decrease) result after income tax by EUR 95 thousand (2015: EUR 174 thousand). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for the year 2015. Eimskip does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss.

(iv) Operational risk

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

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

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

Notes

18. Financial risk management, continued

Capital management

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

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

(i) Equity ratio

	2016	2015
Total equity	243,775	228,124
Total balance sheet capital	391,691	355,157
Equity ratio	62.24%	64.23%

(ii) Net debt to EBITDA ratio

Total interest-bearing debt	81,149	71,401
Cash and cash equivalents	(39,543)	(35,983)
Net debt	41,606	35,418
EBITDA	53,475	45,197
Net debt / EBITDA	0.78	0.78

19. Commitments

Operating lease commitments

	2016	2015
Non-cancellable operating lease commitments are payable as follows:		
Less than one year	6,143	3,918
Between one and five years	5,125	4,699
More than five years	924	1,120
Total operating lease commitments	12,192	9,737

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

20. Related parties

The Company's largest shareholders Yucaipa American Alliance Fund II LP, with 16.34% shareholding, Lífeyrissjóður verzlunarmanna with 14.73% shareholding and Yucaipa American Alliance (Parallel) Fund II LP with 10.77% shareholding of outstanding shares are considered related parties as well as subsidiaries and key management personnel (see note 21). Intercompany transactions with subsidiaries are eliminated in the consolidation.

During the year there were no transactions nor other outstanding balances at year-end with the three major shareholders nor with associated companies.

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

Fee paid to the Board of Directors

	Fee in ISK		Fee in EUR		Shares at year-end*
	2016	2015	2016	2015	2016
Richard Winston Mark d'Abo, Chairman ***	7,530	6,540	56	45	0
Víglundur Thorsteinsson, Vice-Chairman	5,160	4,928	38	34	0
Helga Melkorka Óttarsdóttir, Board Member	3,787	3,597	28	25	0
Hrund Rudolfsdóttir, Board Member	5,292	5,036	40	34	0
Lárus L. Blöndal, Board Member	5,196	4,944	39	34	3,190
Marc J. Smernoff, Alternate of the Board ***	2,965	3,158	22	22	0

Notes

20. Related parties, continued

Salaries and benefits paid to Executive Management

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

2015	In ISK		In EUR		Shares at year-end*
	Base salary	Other	Base salary	Other	
Gylfi Sigfússon, CEO	61,481	14,433	420	99	9,615
Five VP's of the Company and the CFO **** ...	132,595	33,802	905	230	28,847

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

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

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

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

21. Auditor's fees

	2016	2015
Audit of the Financial Statements for the relevant fiscal year	698	621
Other services	280	189
	978	810
Thereof fee to the auditor of the Parent Company	476	318

22. Group entities

At year-end the Company owned directly nine subsidiaries that are all included in the consolidation. During the year a subsidiary of the Company acquired the company Extraco Internationale Expeditie B.V. The company acquired is included in the Consolidated Financial Statements and have an immaterial effect. The direct subsidiaries owned 54 subsidiaries at year-end. The Company holds the majority of voting power in all of its subsidiaries. Assets, liabilities, revenues and expenses in Consolidated Financial Statements that include a non-controlling interest are immaterial to the Group.

The Group's direct subsidiaries are as follows:

	Country of incorporation	Ownership Interest	Ownership Interest
		2016	2015
Eimskip Ísland ehf.	Iceland	100%	100%
TVG-Zimsen ehf.	Iceland	100%	100%
Eimskip USA, Inc.	USA	100%	100%
Eimskip UK Ltd.	England	100%	100%
Eimskip Holding B.V.	The Netherlands	100%	100%
P/f Skipafélagid Føroyar	Faroe Islands	100%	100%
Harbour Grace CS Inc.	Canada	51%	51%
Eimskip REIT ehf.	Iceland	100%	100%
Sæferdir ehf.	Iceland	100%	100%

In November 2016 Eimskip signed an agreement to acquire the Norwegian shipping and logistics company Nor Lines AS. The purchase is subject to approval by the Norwegian Competition Authority. In February 2017 the authority gave a notice of objection to the acquisition as a preliminary conclusion. A final decision is expected in the beginning of the second quarter of 2017.

Notes

23. Other matters

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

24. Subsequent events

In January 2017 Eimskip finalized a contract with China Shipbuilding Trading Company Limited and Guangzhou Wenchong Shipyard Co. Ltd. for the building of two 2,150 TEU container vessels. The contract price for each vessel is approximately USD 32 million (EUR 30 million) and the vessels are expected to be delivered in 2019. The contract is subject to financing and Eimskip is working on securing the funding of the vessels.

In January 2017, Eimskip acquired 80% of the forwarding company Mareco N.V. Mareco focuses on logistics services, especially export to West, Central and South Africa from all over the world. The company's annual revenue is approximately EUR 60 million. The purchase price of Mareco is estimated to be EUR 16.6 million, subject to the company's financial results for the year 2016 and was financed with cash and debt.

Notes

25. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements, and have been applied consistently by Group entities.

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

a. Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(iii) Investment in associated companies

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

b. Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year and the amortized cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

(ii) Foreign operations

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

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

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

Notes

25. Significant accounting policies, continued

c. Financial instruments

(i) Non-derivative financial assets

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

(ii) Derivative financial assets

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

The Group holds derivative financial instruments to hedge its foreign currency rate risk exposures in connections with vessels under construction. At year-end 2015 and 2016 derivative contracts were immaterial.

(iii) Cash and cash equivalents

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

(iv) Non-derivative financial liabilities

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

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

(v) Share capital

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

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

d. Property, vessels and equipment

(i) Recognition and measurement

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

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

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

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

Notes

25. Significant accounting policies, continued

d. Property, vessels and equipment, continued

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

e. Intangible assets

(i) Brand name and customer relations

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

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

(ii) Subsequent expenditure

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

(iii) Amortization

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

Software	3 - 5 years
Market and customer related	10 years

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

f. Leased assets

(i) Leased assets

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

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

Notes

25. Significant accounting policies, continued

f. Leased assets, continued

(ii) Lease payments

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

g. Inventories

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

h. Impairment

(i) Financial assets (including receivables)

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

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

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

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

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

(ii) Non - financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated annually at the same time.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets (the "cash-generating unit").

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

Notes

25. Significant accounting policies, continued

(ii) Non - financial assets, continued

h. Impairment, continued

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

i. Employee defined contribution plans

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

j. Provisions

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

k. Revenue

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

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

l. Finance income and finance expense

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

Finance expenses comprise interest expense on borrowings.

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

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

m. Income tax

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

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

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

Notes

25. Significant accounting policies, continued

m. Income tax, continued

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

n. Earnings per share

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

o. Segment reporting

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

p. New IFRS standards, interpretations and amendments to standards

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

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

IFRS 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Eimskip is still assessing the potential impact of the new standard and its effect cannot be provided at this stage.

In January 2016, the IASB issued IFRS 16 *Leases*. The standard is to replace the current standard IAS 17. According to the new standard, the lessee must report all leases and associated contractual rights on the balance sheet. The current requirement to differentiate between finance leases and operating leases will therefore no longer apply for lessees. If adopted by the European Union, it is expected that the new standard takes effect in January 2019. Currently Eimskip does not have material operating lease commitments and therefore it is not expected that the new standard will have material effects.

Quarterly statements - unaudited

Year 2016	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016
Revenue	113,253	126,102	134,070	140,497	513,922
Expenses	103,621	109,924	116,310	130,592	460,447
Operating profit, EBITDA	9,632	16,178	17,760	9,905	53,475
Depreciation and amortization	(6,365)	(6,797)	(6,917)	(7,998)	(28,077)
Results from operating activities, EBIT	3,267	9,381	10,843	1,907	25,398
Net finance income (expense)	(1,365)	706	(369)	683	(345)
Share of earnings (loss) of associated companies	100	115	196	(201)	210
Net earnings before income tax	2,002	10,202	10,670	2,389	25,263
Income tax	(157)	(1,447)	(1,289)	(475)	(3,368)
Net earnings	1,845	8,755	9,381	1,914	21,895
Year 2015	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015
Revenue	112,663	126,587	129,721	130,610	499,581
Expenses	106,879	113,281	113,361	120,863	454,384
Operating profit, EBITDA	5,784	13,306	16,360	9,747	45,197
Depreciation and amortization	(5,735)	(5,790)	(5,933)	(7,271)	(24,729)
Results from operating activities, EBIT	49	7,516	10,427	2,476	20,468
Net finance income (expense)	2,170	(1,661)	(482)	392	419
Share of earnings of associated companies	92	94	66	79	331
Net earnings before income tax	2,311	5,949	10,011	2,947	21,218
Income tax	(787)	(434)	(1,537)	(658)	(3,416)
Net earnings	1,524	5,515	8,474	2,289	17,802

Corporate Governance Statement

About Eimskip

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

Corporate Governance

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

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

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

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

Laws and regulations

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

Eimskip's Financial Statements

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

Shareholder Relations

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

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

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

The Board of Directors of Eimskip

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

Board meetings are called with one week notice. A meeting schedule is made for the financial year in advance. The invitation contains the agenda for the meeting. The CEO and the CFO attend Board meetings and other members of the Executive Management attend as required. In 2016, the total number of Board meetings was 16 and the Board was competent to make decisions in all meetings.

Corporate Governance Statement

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

Annually, the Board of Directors conducts an assessment of its work, size, composition and procedures and also evaluates the work of the Company's President and CEO, the Company's operations and development and whether it is in line with the Company's objectives. The assessment entails e.g. evaluation of the strengths and weaknesses of the Board's work and practices and takes into consideration the work components the Board believes may be improved. The evaluation is built on self-assessment, but the assistance of outside parties may be sought as appropriate. The evaluation includes an examination of whether the Board has operated in accordance with its Rules of Procedure and how the Board operates in general. Examination must be made whether important matters relating to the Company have been adequately prepared and if sufficient time is provided for discussions within the Board. Additionally, individual Directors must be considered with respect to both attendance and participation in meetings. The assessment for the financial year 2016 will be concluded in March 2017.

Main responsibilities of the Board of Directors

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

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

Rules of Procedure for the Board of Directors

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

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

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

Members of the Audit Committee are Marc Jason Smernoff, Chairman, Lárus L. Blöndal and Ólafur Viggó Sigurbergsson. In 2016, the Audit Committee held a total of 5 meetings.

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

Members of the Remuneration Committee are Hrund Rudolfsdóttir, Chairman, Richard Winston Mark d'Abo and Marc Jason Smernoff. In 2016, the Remuneration Committee held a total of 4 meetings.

Corporate Governance Statement

Nomination Committee

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

The Board of Directors

Richard Winston Mark d'Abo, Chairman of the Board

Richard was born in 1956 and lives in the United States. He is a Partner in The Yucaipa Companies, LLC. Richard has ten years of banking experience and 27 years of experience in private equity. From 1995 to 2003 he was involved in various activities in investment banking and private equity investing, co-founding and serving as the Director of Apogee Electronics, Inc. Richard was a Partner in The Yucaipa Companies, LLC, from 1988 to 1994. During this time he was a key contributor to the acquisitions of Cala Foods, ABC markets, Boys Markets, Almacs, Bell Markets, Alpha Beta and Food4Less. From 1992 to 1994 Richard served as a director of Food4Less Supermarkets. From 1978 to 1987 Richard worked at Union Bank and was involved in financing multiple leveraged and management buyouts. He is currently a board member of A-Tango ehf., Americold Realty Trust, Apogee Electronics, LLC and NPE Holdings, LLC. Richard was previously a board member of VersaCold International Corporation and Americold Realty Trust (board of Trustees). He pursued a degree in Finance from the University of South California from 1975 to 1977. Richard has been on the Board of Directors since 23 September 2009. He does not own shares in the Company but is not independent of Yucaipa Funds, which own in total 50.6 million shares in the Company.

Víglundur Thorsteinsson, Vice-Chairman of the Board

Víglundur was born in 1943 and lives in Iceland. He has been active in Icelandic industries for more than 50 years and has been a board member of various companies and organizations, such as SI (the Federation of Icelandic Industries), SA – Business Iceland (the Confederation of Icelandic Employers) and the Pension Fund of Commerce. Víglundur is currently Chairman of Lindarflöt ehf., a private holding company. He has a Cand.jur. degree from the University of Iceland. Víglundur has been on the Board of Directors since 3 April 2013, is an independent Board member and does not own shares in the Company.

Helga Melkorka Óttarsdóttir

Helga was born in 1966 and lives in Iceland. She is a Managing Partner at LOGOS Legal Services slf. Besides her job at LOGOS, Helga was an adjunct in European Law at the University of Reykjavik from 2005 to 2007 and a lecturer and an adjunct in European Law at the University of Iceland from 2000 to 2006. She served as an attorney in an independent law practice from 1999 to 2000 and was a lawyer at the EFTA Surveillance Authority in Brussels from 1994 to 1999. She was an Ad Hoc College member of the EFTA Surveillance Authority from 2004 to 2014 and was a board member of the Icelandic Bar Association from 2003 to 2006. Helga is currently a board member of Iceland Chamber of Commerce. She has been a Supreme Court Attorney since 2011 and a District Court Attorney since 1999. She took her LL.M. degree in European Law and International Law at Heidelberg in Germany in 1994 and graduated with a Cand.jur. degree from the University of Iceland in 1991. Helga has been on the Board of Directors since 3 April 2013, is an independent Board member and does not own shares in the Company.

Hrund Rudolfsdóttir

Hrund was born in 1969 and lives in Iceland. She is the CEO of Veritas Capital ehf. Previously she was Corporate Director of Human Resources at Marel hf. from 2009 and Director of Operations and Investments at Moderna Finance ehf./Milestone ehf. from 2007 to 2009. Hrund was CEO of L&H Holding, CEO and Chief of Operations of Lyf & heilsa hf. from 2003 to 2006. She is currently a board member of Stefni hf., Holdor ehf. and Stjánkur ehf. Hrund took her Master's degree in International Marketing and Management at Copenhagen Business School in 2000 and her Cand.Oecon. degree at the University of Iceland in 1994. Hrund has been on the Board of Directors since 3 April 2013, is an independent Board member and does not own shares in the Company.

Corporate Governance Statement

Lárus L. Blöndal

Lárus was born in 1961 and lives in Iceland. He is a Supreme Court Attorney and a partner at the law firm Juris. Previously he was a partner at Almenna lögræðistofan from 1990 to 2008. Lárus has been a member of the Competition Appeals Committee in Iceland since 2000. He has been a member of the National Olympic and Sports Association of Iceland since 2001 and its President since 2013. Lárus is currently a board member of Orkusalan hf., Hótel Borg ehf., RARIK Orkuthróun ehf., ISFI (Icelandic State Financial Investments) and the University of Iceland's Research Centre in Environmental and Natural Resources Law. He has previously been a board member of the Icelandic Bar Association, the University of Iceland's Human Rights Institute and the Housing Financing Fund, Chairman of the National Olympic and Sport Association's legal committee and a member of various other official committees and boards. Lárus is a Supreme Court Attorney since 1998, a District Court Attorney since 1990 and graduated with a Cand.jur. degree from the University of Iceland in 1987. Lárus has been on the Board of Directors since 27 March 2014 and is an independent Board member. He owns 3,190 shares in the Company.

Jóhanna á Bergi, Alternate Member of the Board

Jóhanna was born in 1970 and lives in the Faroe Islands. She is the CEO of Atlantic Airways Ltd. Jóhanna was CEO of P/f Faroe Ship, Eimskip's subsidiary in the Faroe Islands, from 2006 to 2015, Sales Director of JFD and Kósin Seafood from 1998 to 2006 and Sales Manager of Faroe Seafood France from 1994 to 1998. She is currently a board member of P/f Ánunum and P/f Bergfrost and of two of Eimskip's subsidiaries in the Faroe Islands. She is a member of the Faroese Confederation of Sports and Olympic Committee, Nordoyatunnilin, Föroyagrunnurin and the Faroese-Icelandic Chamber of Commerce. Jóhanna has a Master's degree in Management from Robert Gordon University in the UK. She further holds an EE degree from the Danish School of International Marketing and Export. Jóhanna has been an alternate member of the Board since 3 April 2013, is not independent of P/f Faroe Ship, one of the Company's subsidiaries, as its former Managing Director and does not own shares in the Company.

Marc Jason Smernoff, Alternate Member of the Board

Marc was born in 1973 and lives in the United States. He is the Executive Vice President, Chief Financial Officer and Chief Administrative Officer of Americold Realty Trust. From 2004 to 2014 he was Director of Private Equity of The Yucaipa Companies. Marc was Manager of Transaction Services at KPMG from 2003 to 2004 and an Associate of Investment Banking at Wells Fargo Securities, LLC from 2000 to 2002. He was Manager of Corporate Finance at Ernst & Young, LLP from 1997 to 2000 and a staff Accountant of Assurance & Advisory Business Services at Ernst & Young, LLP from 1995 to 1997. He has previously been a Board member of Eimskipafélag Íslands hf., Digital On-Demand Inc., La Canada Flintridge Educational Foundation and Americold Realty Trust (board of Trustees). Marc has a Master's degree in Business Administration from the UCLA Anderson School of Management in 2005 and is a Certified Public Accountant. He furthermore holds a Bachelor's degree in Business Economics from the University of California, Santa Barbara, which he took in 1995. Marc has been on the Board of Directors since 23 September 2009. He does not own shares in the Company but is not independent of Yucaipa Funds, which own in total 50.6 million shares in the Company.

The Chief Executive Officer

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

Corporate Governance Statement

Gylfi Sigfússon, President and Chief Executive Officer

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

The Executive Management

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

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

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

Internal Control and Risk Management

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

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

Eimskip's internal control and risk management procedures regarding financial processes are designed to minimize the risk of material misstatements. The Company does not have an internal audit function, but it uses internal control systems that are monitored by the Audit Committee and assessed by the independent auditors. The independent auditors' evaluation of these processes is included in the Independent Auditors' Report in the Financial Statements.

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

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

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

Corporate Governance Statement

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

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

Information on violation of rules determined by the applicable authority

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

Corporate Social Responsibility

For over a century, Eimskip has connected Iceland and the rest of the world with its transportation services. The Company has played an important role in Iceland's history; it realizes its responsibility and is committed to maintaining its presence and services in the North Atlantic, where reliable transport is crucial to the economy and prosperity of the region.

To attain this, Eimskip strives to provide the most efficient and sustainable transportation options combined with outstanding services to customers, while being profitable for shareholders and responsible towards the society, environment and the workforce.

Eimskip transports large volumes of foods and various consumer goods and by securing safe transport with the focus on lowering damage it creates a shared value with smaller waste generation for the benefit of the environment.

The Company wants to contribute to a better and safer society wherever it operates and sees it as an integral part of its corporate responsibility, values and goals to be a responsible player in the community. In that spirit, it has throughout the years supported a variety of community projects with special focus on youth and children, on enhancing safety and on the environment.

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

Various policies

The Company has adopted various policies in order to support reaching its long-term goals; such as Environmental Policy, Safety Policy, Service Policy, Human Resources Policy, Equal Opportunities Policy, Code of Conduct and Social Responsibility and various policies related to Corporate Governance.

The statement of Code of Conduct and Social Responsibility applies to all board members of Eimskip and companies in the Eimskip group.

In the statement, the Company has set out its values which are: Achievement, Cooperation and Trust (ACT). These are the employee's guiding principles in the Company's endeavor to preserve and protect the environment, to work for a better society wherever it operates and to be a role model when it comes to responsibility and trust.

Other items addressed in the statement include compliance with laws, regulations and rules, conflict of interests, social responsibility, society matters, effective communication and confidentiality.

Human Rights

Currently, human rights are addressed in Eimskip's Human Resources policy, the Equal Opportunities Policy and the Code of Conduct and Social Responsibility. These policies focus on employees' opportunity to grow and prosper in a good and healthy working environment with great team spirit and ambition. Also on safety, health, victimization, gender equality, wages and terms of employment, career development and training, harmonization of family and working life, gender-based or sexual harassment and on employees' behavior and performance of work. Eimskip has started working on adopting a formal Human Rights Policy which will be published in 2017.

Corporate Governance Statement

Anti-Corruption and Bribery

According to the Company's Code of Conduct and Social Responsibility, Eimskip and its employees focus on complying with all acceptable law, regulations, rules and general ethical standards governing the professional activities of the Company, with the aim of conducting sound business practices. Any employee who is aware of conflict of interests between the Company, employees, shareholders or the companies which these parties are associated with, or is concerned that a conflict of interests might develop, should immediately inform his boss or the Board of the Company. Eimskip will work on adopting a formal policy of Anti-Corruption and Bribery in 2017.

Eimskip will in 2017 continue working on its Corporate Social Responsibility (CSR). The focus will be on implementing the Company's CSR policy in the group and on goals, measurements and publishing of its ecological footprint.

In Eimskip's Annual Reports an analysis is made of elements concerning the Company's values, its corporate social responsibility and environmental matters. The Annual Reports and the statement of Code of Conduct and Social Responsibility are accessible on the Company's website, www.eimskip.is.