

ANNUAL REPORT 2015



# TABLE OF CONTENTS

	<b>CONTENTS</b>	<b>PAGE</b>
<b>1</b>	Chairman's Address	4
	President and CEO's Address	6
	Board of Directors	10
	Corporate Governance	12
	Shareholder Information	14
<b>2</b>	Key Highlights 2015	19
<b>3</b>	The Company	25
<b>4</b>	Customer Service	49
<b>5</b>	Employees	53
<b>6</b>	Corporate Social Responsibility	56
<b>7</b>	Risk Management and Risk Factors	60
<b>8</b>	Consolidated Financial Statements 2015	65
	Notes to the Consolidated Financial Statements	75
	Quarterly Statements (Unaudited)	97
	Corporate Governance Statement	98



## BACKGROUND AND EARNINGS

Eimskip continues to grow: 2015 was our sixth year of growth in volumes in liner services and forwarding, despite the turmoil overall in our industry and competitive pressures. This is an achievement; Eimskip is well placed to grow further and we have invested in our infrastructure so as better to serve our customers and our employees. Eimskip is a leading transportation company in the North Atlantic. We are a niche carrier, serving a vital role in connecting our customers with major markets in the EU, the USA and all over the world through our forwarding division. Our customers rely on the dependability and quality of our services. Eimskip is an integral part of the communities that it serves; we believe in continuous improvement as shown by our investment in infrastructure and systems in order to provide improved services. Eimskip has a strong foundation from which to grow.

In 2015 Eimskip's EBITDA amounted to EUR 45.2 million, up 17.3%, and our net earnings stood at EUR 17.8 million, up by 30.8% from 2014. This was due to improved volumes in our North Atlantic shipping and our worldwide freight forwarding business. Changing our port of call in the US to Portland, Maine has helped us grow our transatlantic volumes. The overall improving Icelandic economy, the continued global demand for fish and fish-farming products and the accretive add-on acquisitions are also a part of our success in 2015. Our results were excellent given the difficulties within the shipping industry and the very low level of global economic growth. We were also able to come back from a tough first quarter of 2015.

## DIVIDEND INCREASE

The Board, in keeping with its dividend policy, is recommending a raise in dividend to ISK 6.50 per share, an increase of 30% from 2014. This is reflective of Eimskip's strong results in 2015. It is Eimskip's intent to continue to raise its dividend as a way to increase shareholder value, given the financial strength of the Company.

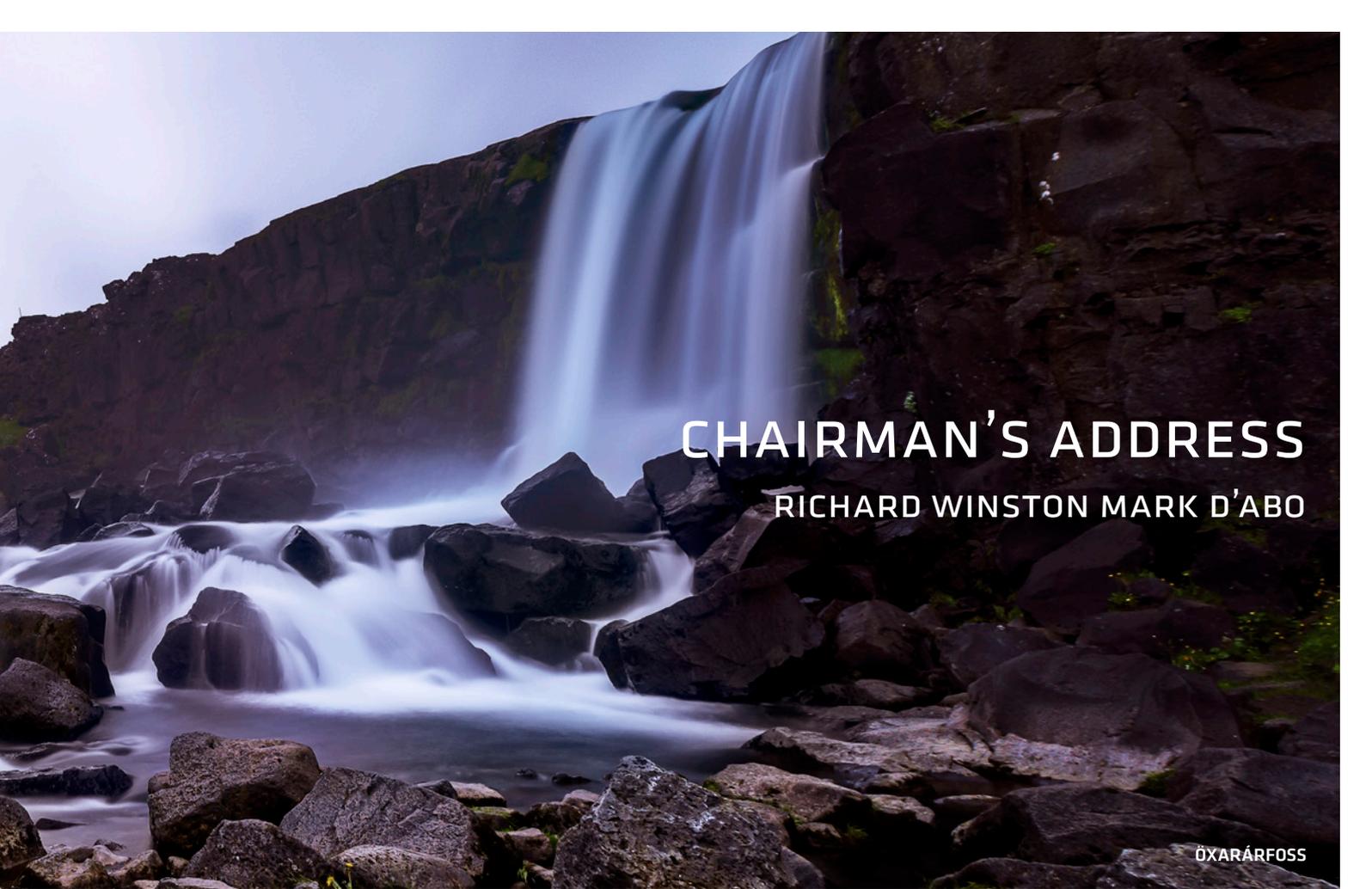
## 2015 HIGHLIGHTS INFRASTRUCTURE AND ACQUISITIONS

Some of the highlights of the year were: 1) Eimskip completed a 10,000-ton cold storage facility in Hafnarfjörður, which has been well received by our customers. This allowed us to free up some 250 reefer containers that previously were being used for storage for more productive uses. 2) The installation of two harbor cranes, one in Reyðarfjörður to better service Alcoa and one at Grundartangi to better service Nordurál and our growing local customer base. We have ordered a third crane that will go into service in Reykjavík. We will also be relocating one of the Reykjavík cranes to the Westman Islands. All of this infrastructure investment will allow us to better serve our customers and give us the flexibility to service these ports with gearless vessels. 3) In 2015 we completed two add-on accretive acquisitions in the forwarding business; Jac. Meisner in Rotterdam and Cargocan Agency Ltd. in Newfoundland and Labrador. These two companies are run by their founders, whom we welcome into the Eimskip family. Both of these businesses enhance and expand our existing forwarding businesses. We have achieved synergies as these businesses have been integrated into Eimskip, and both our existing and new customers will benefit from these acquisitions. We are continuing to look at acquisitions in this area with the same characteristics. Eimskip wants to grow its forwarding business worldwide as its asset-light nature gives good balance to other activities and creates shareholder value. It also helps us to diversify our business on a geographical basis. 4) We bought the cold storage operation of St. Anthony Cold Storage in Newfoundland and took over the warehouse operation of Damco in Århus, Denmark. Both of these operations have been integrated into Eimskip and will be accretive.



Richard Winston Mark d'Abo

All of these acquisitions demonstrate Eimskip's ability to execute add-on accretive acquisitions. We also welcome family businesses into the Eimskip family. The knowledge and the customer relationships that founders bring to



# CHAIRMAN'S ADDRESS

RICHARD WINSTON MARK D'ABO

ÖXARÁRFOSS

the table is important and is respected by us. We are actively looking at several additional add-on acquisitions. Eimskip's overseas managers, with their local contacts and knowledge, are also helping us to identify local opportunities.

## FLEET STRATEGY AND EXTERNAL GROWTH

In 2015 we established a joint venture with König & Cie. in Hamburg. The purposes of the joint venture are: a) Managing the replacement of older vessels, b) Optimizing the future Eimskip fleet, c) Accessing knowledge in daily vessel operations and dockings, d) Accessing new shipbuilding projects, e) Trading of our own vessels, and f) Purchasing of used vessels.

This has worked well for Eimskip and we are continually looking at purchasing second-hand vessels for our trade. We believe it is an attractive time to purchase second-hand vessels; however, many of the German banks that own the size of vessels that we are looking for seem not for the moment to be willing sellers. We hope that this year may bring us attractive opportunities to purchase second-hand vessels. We are a strong buyer due to our financial strength and ability to use the vessels. We are also willing to purchase multiple vessels at the same time if the package makes financial sense. We continue to evaluate our needs and our joint venture has helped us gain access and a great deal of market knowledge as anticipated. We also will consider a new building program if appropriate.

We are actively looking for larger strategic acquisitions. We have a strong balance sheet, which in these difficult times should allow us to take advantage of opportunities as they may arise.

We continue to look at different alternatives to access capital markets depending on the needs of Eimskip, both in terms of a dual listing or foreign debt issuance.

## OTHER MATTERS

With regard to the Icelandic Competition Authority (ICA), Eimskip still does not know the reasons for the ICA investigation into periods prior to 2009. Eimskip will continue to take all necessary legal action to defend itself. We provided additional information to the ICA in February 2016 and are waiting for a response.

## SOCIAL AND SUSTAINABLE RESPONSIBILITY

Eimskip follows a strategy regarding social and sustainable responsibility to the welfare of both the community and the environment. This is reflected in generous support of various cultural and communal projects and a systematic approach to minimizing pollution and damage to the ecosystem and ensuring safety in operations. We are a proud sponsor of the Arctic Circle, which is the most important independent gathering held in the World to discuss all of the issues of the Arctic and its indigenous people. We are deeply involved with all the relevant issues that affect our North Atlantic markets. Eimskip is part of the fabric that makes up this market and we seek to help provide the best and most consistent transportation to these communities.

I would like to thank all of our customers for their continued support. Last but not least I would like to thank all of our employees who make up the Eimskip family for all their tremendous dedicated service. You make the difference, thank you.

We hope the EU stimulus will have a positive effect on the macroeconomics of Europe. We are still in uncertain times although the Icelandic economy seems good and growing. It is also a great benefit to have resolution of the Icelandic banking situation that should lead to the start of lifting capital controls. We look forward to continuing to grow in volume and profitability in 2016. We will continue to make acquisitions and hope to take advantage of our strong balance sheet.



## BEST RESULTS SINCE 2009 AND POSITIVE RESULTS FROM ACQUISITIONS

Eimskip's revenue in 2015 amounted to EUR 499.6 million and grew by 10.6% from the previous year. The Company's operating profit for the year, or EBITDA, amounted to EUR 45.2 million, which is an increase of 17.3% from 2014. Eimskip's balance sheet at the end of 2015 remained solid and strong, with low leverage and total assets amounting to EUR 355.2 million, net debt in the amount of EUR 35.4 million and a 64.2% equity ratio. The Company's cash flow is strong, with cash and cash equivalents amounting to EUR 36.0 million at year-end.

Transported volume in the Company's liner services in the North Atlantic increased by 4.2% from 2014. There was considerable growth in transported volume to and from Iceland and a slight decrease in the Faroe Islands transport, resulting from different routing of pelagic fish. Volumes in Norway got back on track after a difficult start to the year following problems with our vessels, drops in catches and adverse weather conditions. Transported volume in the Company's reefer forwarding services grew by 7.5% from 2014, mainly due to increased transportation through the companies that were acquired in the year 2015 and more cargo flow between Asia and Europe. The Intra-Asian business is also strengthening, owing to the addition of new commodities and new markets.

Eimskip has been working on strengthening its infrastructure in Iceland and in other parts of its home market. The Company invested in two harbor cranes

in the year: one for Reydarfjörður to handle the Alcoa terminal operation following a long-term contract with Alcoa and the other which was moved to Grundartangi, were the Nordurál aluminum smelter is being served by Eimskip's liner services following an extended contract with Nordurál. A third crane was ordered in 2015 to be positioned in Reykjavík as activities are growing, replacing an older one which will be sent to the Westman Islands to serve the Yellow Line. This investment in cranes allows Eimskip and its terminals to operate non-geared vessels on the Yellow and Blue Lines in the future. In December 2015, the Company took into operation a new 10,000-ton cold storage facility in Hafnarfjörður, Iceland. This is the group's first addition to its cold storage capacity in Iceland since 2003, bringing the total in Iceland to 17,000 tons compared to 7,000 tons before. This increased capacity means that the 250 containers that had to be used for temporary storage due to lack of capacity can now return to their optimal usage of moving cargo from one place to another.

In 2015, Eimskip acquired the cold store operation of St. Anthony Cold Storage Ltd. and the forwarding company Cargocan Agency Ltd. in Newfoundland and Labrador. Eimskip also acquired the forwarding company Jac. Meisner in the Netherlands, which is located in the port of Rotterdam and is specialized in customs brokerage and veterinary inspection. In Denmark, Eimskip took over



Gylfi Sigfússon

# PRESIDENT AND CEO'S ADDRESS

## GYLFI SIGFÚSSON

DYRHÓLAEY

the warehouse operation of Damco in Århus. In Iceland, the Company bought all the shares of Seatours (Sæferdir), a ferry operating company serving the west coast of Iceland. Synergy has followed all of these acquisitions and the companies have been performing in line with the Company's expectations.

Investments in containers, trucks and other operating equipment also played a big role in the investments of the year as volume keeps on building up.

In the year 2015 the Company had to dock nine of its fourteen own vessels, both as a regular and non-regular maintenance, so costs related to dockings hit harder than in previous years.

### **CHANGES IN THE SAILING SCHEDULE FOLLOWING AN EVER-CHANGING MARKETPLACE**

Eimskip has been adjusting its sailing schedule to reflect changes in market requirements. Substantial changes were introduced in March 2013 and further adjustments in February 2014, with the aim of broadening the Company's sailing schedule in the North Atlantic by increasing the number of port calls and adding a vessel to its liner services fleet. Changes implemented in February 2015 involved merging the Red Line and the Green Line into a new Green Line, operating three vessels. This new line connects the US and Canada with mainland Europe, the UK, Iceland and Norway, without transshipments in Iceland, and offers services between the two continents with greater frequency than before. In October 2015 the services of the Gray Line were expanded by

adding another 500 TEU (twenty-foot equivalent unit) vessel to weekly services between the Faroe Islands, Scotland, Scandinavian ports and Poland. Eimskip's current sailing schedule offers greater flexibility and reliability, which should create future opportunities for the Company and its customers.

### **GROWTH IN REEFER FORWARDING**

Reefer forwarding services have been growing constantly over the past eleven years and are offered in cooperation with various deep-sea lines outside the Company's sailing schedule. The volume consists mainly of frozen or chilled seafood, meat, fruit and vegetables. The trade lanes have grown from being mostly transport services between China and Europe/US, mainly transporting fish, to being an Intra-Asian business with a more even balance of imports and exports into and out of Asia and opening up new market trade lanes with broader commodities, such as meat, fruit and vegetables, into new markets, such as Africa and South America.

During 2015, Eimskip celebrated its 30th anniversary in Rotterdam and the United States, 25 years in Norway and Newfoundland and ten years in Vigo, Spain. Eimskip started offering forwarding services between Qingdao in China and Rotterdam in 2004, starting off with only 4,000 TEU, but the volumes have grown constantly since then due to extension of the Company's network. In 2015, forwarding services accounted for 28% of the Company's revenue and 21% of EBITDA.

# PRESIDENT AND CEO'S ADDRESS

## ORGANIC GROWTH AND GROWTH THROUGH STRATEGIC ACQUISITIONS

Positive development is taking place in the transportation market in the North Atlantic, from the area covering Northern Norway to the northeast of the US. We are expecting increased imports and exports to and from Iceland and a steady volume in the Faroe Islands. The outlook for Norway is positive in the coming years and Eimskip's transatlantic services are growing. Projects are moving forward in the silicon industry and the salmon industry is stepping up.

The Company has a very strong capital structure and is well prepared for future investments and opportunities, both in the North Atlantic and around the globe as it has been investing in its infrastructure in recent years. The Company is constantly reviewing and optimizing its sailing system, the business setup and its operations, seeking solutions to reduce vessel- and container fleet costs and improve utilization of its transportation system. As part of this strategy, it has established a ship management company in Hamburg, Germany, in cooperation with the German company König & Cie. Holding GmbH & Co. KG. The main role of the new ship management company is to work on replacing older vessels, optimizing the vessel fleet, to gain better access to a knowledge base covering daily operations and dockings of vessels and to work on new building projects and vessel trading.

In February 2015, the Company took steps forward in expanding its presence in Århus, Denmark, by finalizing the takeover of a 21,500 square meter warehouse, making Eimskip the largest warehouse operator in this second largest port in Scandinavia. Eimskip is the third-largest carrier calling at the port of Århus, following Maersk and MSC. The Company also finalized acquisitions of the three aforementioned companies in the first quarter of 2015: the forwarding companies Jac. Meisner in the Netherlands and Cargocan Agency Ltd. in St. John's, Newfoundland and Labrador, and the cold storage operation of St. Anthony Cold Storage Ltd. in St. Anthony, Newfoundland and Labrador. These acquisitions will play an important role in further strengthening the Company's forwarding services and will also support its liner services.

## VISION

The Company's vision is very clear: to be a leading transportation company, providing outstanding services through a dependable transport system in the North Atlantic and an extensive worldwide network of reefer logistics services. During the last five years, Eimskip has been focusing on its vision by investing in organic growth. This has been done by adjusting the sailing schedule

through investments in vessels, equipment and IT solutions and by building up infrastructure to create value for customers. The Company will continue to follow its vision, but will also look for external growth opportunities and diversification of the business, just as we did in 2015 with dynamic strategic acquisitions. To follow up on the successful additions last year and as part of the Company's strategy, Eimskip is currently looking into potential mergers and acquisitions that will fit its vision and create operational synergy and shareholder value. The main targets are liner operations, vessel investments, terminal-related operations, freight forwarding and customs brokerage companies, cold storage facilities at targeted locations and the opening of new offices.

## VALUES

Eimskip plays a very important role in the North Atlantic, operating a strong and dependable sailing system. Eimskip is proud to be a niche carrier in the Arctic and to be able to serve the communities in the North Atlantic. The service network spans from Northern Norway, through the Faroe Islands, Iceland, Greenland, Newfoundland and Labrador, Atlantic Canada and the northeastern states of the US through the port of Maine. Eimskip is aware of its responsibility in connecting countries in the North Atlantic and aims to live up to that responsibility in its daily operations. Eimskip's values are Achievement, Cooperation and Trust. These are the guiding principles in the Company's way of dealing with its stakeholders, customers, employees, shareholders and the environment. Eimskip is focusing on its social responsibility and on reducing its environmental impact and was, in November, one of about 100 Icelandic businesses of all sizes to sign a Declaration on Climate Issues, which was delivered at the 2015 United Nations Climate Change Conference in Paris in December. The intention is to show social responsibility in practice by reducing emissions of greenhouse gases, reducing waste and monitoring the results of regular measurements of achievements in these areas. It has always been a key factor in Eimskip's operations and culture to be a responsible and respectful employer, to work towards a better society wherever it operates, constantly to improve the services offered to customers and to be a role model when it comes to responsibility and trust.

Eimskip's future is bright and I look forward to challenging times ahead, working with our dedicated employees in the 19 countries that we serve with our own offices and with our associates worldwide. I have great faith in us as a team with the capacity to achieve good results and increase shareholder value in the coming years and to build up trust towards our customers and other stakeholders through effective cooperation between our offices worldwide.





### **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 26 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.



### **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 Reykjavík 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. Helga was nominated as a Leading Lawyer in financial and corporate law in IFLR1000 in 2011, 2012 and 2013 and a Leading Individual in Chambers Global, most recently in 2013. 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.



### **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.



### **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 Stefmir hf., Holdor ehf. and Stjárnkur 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.



# BOARD OF DIRECTORS

HVALSNES Í LÓNI

## 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 lögfræðistofan 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.



## 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.



## 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, Föroyagrúnnurin 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.





Eimskip is a limited liability company that is governed by the Public Limited Companies Act, No. 2/1995, its Articles of Association and the Board of Directors' Rules of Procedure. Under its Articles of Association, the Company is governed by shareholders' meetings, the Board of Directors and the Chief Executive Officer.

The Board of Directors approved an update of the Corporate Governance statement for the Company on 25 February 2016. The purpose of Corporate Governance is to strengthen the Company's infrastructure and increase transparency. The statement declares that Eimskip complies with the accepted practices in the 5th edition of Corporate Governance guidelines issued by the Iceland Chamber of Commerce, SA – Business Iceland and Nasdaq Iceland. Eimskip's Corporate Governance statement is accessible on the Company's website and in the Company's Financial Statements for 2015.

## BOARD OF DIRECTORS

The Annual General Meeting of the Company elects five members and two alternate members to the Board of Directors. As of 1 September 2013, the gender ratio on the Board of Directors must be as even as possible, each gender never accounting for less than 40%. 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 and their conformity with existing laws and regulations. Together with the CEO, the Board takes initiative in formulating policies and setting goals and risk parameters and established an active system of internal controls which is verified regularly. The Board handles the recruitment and dismissal of the CEO. Rules of Procedure for the Board of Directors were adopted in accordance with

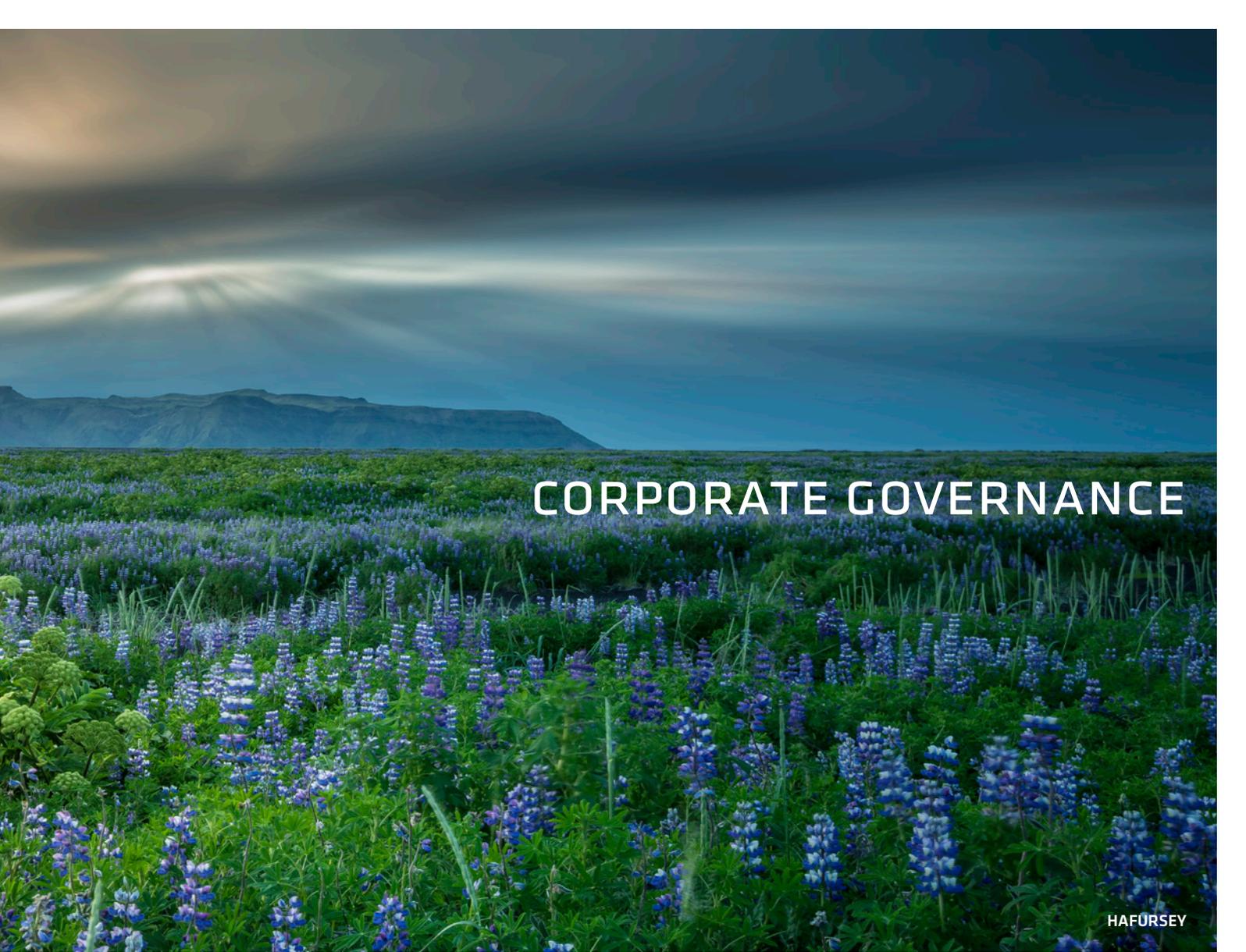
the fifth paragraph of Article 70 of the Public Limited Companies Act, No. 2/1995 and are supplementary to the Articles of Association. Under the Rules of Procedure, the Board of Directors elects subcommittees that operate on its behalf. The Rules of Procedure are accessible on the Company's website.

## BOARD COMMITTEES

The Board of Directors appointed two subcommittees in 2012: the Audit Committee and the Remuneration Committee. Rules of procedure for the subcommittees can be found on the Company's website.

The principal duties of the Audit Committee are to review all financial information and procedures regarding information disclosure from day-to-day managers and the Company's independent auditors and to ensure the independence of the Company's independent auditors. The role and main projects 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.

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. Eimskip's Remuneration Policy is accessible on the Company's website. The role and main projects of the Remuneration Committee are set out in its rules of procedure. Members of the Remuneration Committee are Hrunn Rudolfsdóttir, Chairman, Richard Winston Mark d'Abo and Marc Jason Smernoff.



# CORPORATE GOVERNANCE

HAFURSEY

## CHIEF EXECUTIVE OFFICER

The CEO is responsible for the day-to-day operations of the Company, in accordance with law, regulations and the Company's Articles of Association, and must follow 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. The 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 obliged to abide by all instructions of the Board of Directors and to 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 in its Rules of Procedure.

## EXECUTIVE MANAGEMENT

Eimskip's Executive Management consists of the Chief Executive Officer, the Chief Financial Officer and the Directors of International operations, Iceland Domestic operations, Ship Management and Transportation Services. All the executives have extensive experience within the Company. Further information on the Executive Management is to be found on pages 28 and 29.

## INTERNAL CONTROL AND RISK MANAGEMENT

Internal control and active risk management play an important role at Eimskip to ensure stable operations and earnings. The internal control and risk management procedures regarding financial processes are designed to control the risk of material misstatements. The Company's internal control systems are monitored by the Audit Committee and assessed by the independent auditors.

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. Risk management within the Company is governed by the Board of Directors, while the Audit Committee is responsible for its review on a regular basis. Further information on risk management and risk factors is to be found on pages 60 to 62.

## VALUES

The Company has set out its values in the acronym ACT which stands for: Achievement - Cooperation - Trust.

## CODE OF CONDUCT, SOCIAL RESPONSIBILITY AND ENVIRONMENTAL MATTERS

The Board of Directors has issued a Code of Conduct and Social Responsibility which applies to all board members and employees of companies in the Eimskip group. The code presents, and is built on, Eimskip's values.

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

The Code of Conduct and Social Responsibility is accessible to employees through the Company's intranet and to others on the Company's website.

Eimskip's take on environmental matters, including the Company's Environmental Policy, is presented on pages 56 to 58.



## SHARE CAPITAL

Eimskip's shares started trading on Nasdaq Iceland on 16 November 2012 with the ISIN number IS0000019800 and under the ticker symbol EIM.

The total number of Eimskip's shares is 200,000,000. Each share has a nominal value of ISK 1.00 and entitles its holder to one vote. The Company holds 13,360,770 shares in treasury, corresponding to 6.68% of the total issued share capital of the Company and the number of outstanding shares is 186,639,230. There were 955 shareholders at the end of 2015.

## SHARES OWNED BY A1988 HF.

A1988 hf. is the current name of the company formerly known as HF. Eimskipafélag Íslands, for which a composition agreement was accepted by all creditors in August 2009. The composition agreement included a provision by which unsecured creditors received shares in a new company, Eimskipafélag Íslands hf.

Under the composition agreement for A1988 hf., a 4.2% shareholding in Eimskip was not distributed to creditors but reserved for A1988 hf. to satisfy contingent claims that might arise in the coming periods resulting from events prior to the composition agreement. These shares do not carry voting rights.

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.

In March 2014, Eimskip received 7,441,950 shares from A1988 hf. The shares correspond to 3.72% of total share capital in Eimskip. A1988 hf. still holds 1,000,000 shares, corresponding to 0.5% of total share capital in Eimskip.

## LARGEST SHAREHOLDERS

Three of Eimskip's shareholders each owned over 10% in the Company at the end of 2015. The two Yucaipa American Alliance funds owned 15.25% and 10.05%, or a total of 25.3% of issued share capital. Lífeyrissjóður verzlunarmanna was the second largest shareholder with a share of 14.22%.

The 20 largest shareholders held 82.47% of the total shares at year-end 2015.

# SHAREHOLDER INFORMATION

HOFFELLSFJALL

## 20 LARGEST SHAREHOLDERS

List of 20 largest shareholders as at 31 December 2015

SHAREHOLDERS	SHARES	%
1 Yucaipa American Alliance Fund II, LP	30,504,030	15.25%
2 Lífeyrissjóður verzlunarmanna	28,435,070	14.22%
3 Yucaipa American Alliance (Parallel)	20,095,970	10.05%
4 Lífeyrissj.starfsm.rík. A-deild	14,070,000	7.04%
5 Eimskipafélag Íslands hf.	13,360,770	6.68%
6 Gildi - lífeyrissjóður	8,085,462	4.04%
7 J.P. Morgan Clearing Corporation	7,672,360	3.84%
8 Sameinadi lífeyrissjóðurinn	5,611,062	2.81%
9 Lífeyrissj.starfsm.rík. B-deild	5,125,500	2.56%
10 Stapi lífeyrissjóður	5,118,769	2.56%
11 Kvika banki hf.	4,083,992	2.04%
12 Söfnunarsjóður lífeyrisréttinda	3,252,823	1.63%
13 Íslandsbanki hf.	2,942,545	1.47%
14 Íslandssjódir - IS Hlutabréfasjóðurinn	2,742,889	1.37%
15 Almenni lífeyrissjóðurinn	2,465,146	1.23%
16 Tharabakki ehf.	2,400,000	1.20%
17 Stafir lífeyrissjóður	2,395,156	1.20%
18 Festa - lífeyrissjóður	2,371,823	1.19%
19 Lífeyrissjóður starfsm sveitarfélaga	2,195,982	1.10%
20 Stefni - ÍS 15	2,003,869	1.00%
20 largest shareholders total	164,933,218	82.47%
935 other shareholders total	35,066,782	17.53%
955 shareholders total	200,000,000	100.00%

## DISTRIBUTION OF SHARES

List of 20 largest shareholders as at 31 December 2015

SHAREHOLDING	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1-5,000	636	66.60%	1,615,411	0.81%
5,001-10,000	93	9.74%	729,853	0.36%
10,001-100,000	155	16.23%	4,615,086	2.31%
100,001-200,000	18	1.88%	2,362,065	1.18%
200,001-1,000,000	23	2.41%	11,388,464	5.69%
1,000,001-10,000,000	25	2.62%	72,823,281	36.41%
10,000,001 +	5	0.52%	106,465,840	53.23%
	955	100.00%	200,000,000	100.00%

# SHAREHOLDER INFORMATION

## SHARE PRICES 2014 TO 2016



### SHARE PRICES AND MARKET CAPITALIZATION

The price of Eimskip's shares in the IPO in 2012 was ISK 208.00 and the closing price on the first day of trading was ISK 225.00. As shown on the above graph of share prices from 2014 to 2016, there have been some fluctuations during the period. The closing price of the year 2015 was ISK 235.50 which represented Eimskip's market capitalization based on outstanding shares at year-end 2015 in the amount of ISK 44.0 billion, the equivalent of EUR 311.0 million. The market capitalization of the Company in relation to the restructuring in 2009 was EUR 167.8 million.

The closing price of Eimskip's shares on 14 March 2016 was ISK 238.50 per share with market capitalization based on outstanding shares in the amount of ISK 44.5 billion, equal to EUR 316.7 million.

### 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 earnings. 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. The dividend policy is accessible on the Company's website.

In April 2015 Eimskip paid dividend in the amount of ISK 5.00 per share. The total dividend payment amounted to ISK 933.2 million, which represented 46.2% of net earnings for the year 2014. The payment date was 21 April 2015. The paid dividend was equivalent to EUR 6.3 million.

The Board of Directors proposed to the Annual General Meeting a dividend payment in 2016 in the amount of ISK 1,213.2 million, or EUR 8.5 million, which represents 47.9% of net earnings for 2015.

### INVESTOR RELATIONS POLICY

Eimskip recognizes the value of transparent and open communication with the Company's stakeholders, consistent with commercial confidentiality and regulatory considerations. Stakeholders include investors, employees, customers, suppliers, the media, local communities and authorities.

The Board has issued an IR Policy which outlines the objectives and processes for effective communication between Eimskip and its various audiences. The IR Policy is available on the Company's website.

### OTHER SHAREHOLDER INFORMATION

Eimskip's Investor Relations website, [www.eimskip.is/investors](http://www.eimskip.is/investors), provides information for investors, market participants and others. The website contains information about the Company, such as Corporate Governance documents, financial reports and presentations, Annual Reports, documents relating to Annual General Meetings, general presentations, share information, news releases and investor contacts.







# KEY HIGHLIGHTS

## KEY FIGURES

CONSOLIDATED INCOME STATEMENT	2015	2014	CHANGE	2013	2012	2011
Revenue	499,581	451,555	10.6%	433,824	423,653	393,118
Expenses	454,384	413,013	10.0%	396,770	387,485	349,963
<b>Operating profit - EBITDA</b>	<b>45,197</b>	<b>38,542</b>	<b>17.3%</b>	<b>37,054</b>	<b>36,168</b>	<b>43,155</b>
Depreciation and amortization	( 24,729)	( 23,195)	( 6.6%)	( 21,143)	( 22,436)	( 23,223)
<b>Results from operating activities - EBIT</b>	<b>20,468</b>	<b>15,347</b>	<b>33.4%</b>	<b>15,911</b>	<b>13,732</b>	<b>19,932</b>
Net finance income (expense)	419	591	( 29.1%)	( 3,234)	( 2,983)	3,709
Share of earnings of associated companies	331	229	44.5%	2	0	0
<b>Net earnings before income tax</b>	<b>21,218</b>	<b>16,167</b>	<b>31.2%</b>	<b>12,679</b>	<b>10,749</b>	<b>16,223</b>
Income tax	( 3,416)	( 2,560)	( 33.4%)	( 1,862)	1,982	( 3,078)
<b>Net earnings for the year</b>	<b>17,802</b>	<b>13,607</b>	<b>30.8%</b>	<b>10,817</b>	<b>12,731</b>	<b>13,145</b>
<b>Adjusted for one-off items:</b>						
Sales growth	10.6%	4.1%		2.4%	12.0%	3.7%
EBITDA ratio	9.0%	8.5%		8.5%	9.6%	9.7%
EBIT ratio	4.1%	3.4%		3.7%	4.3%	3.7%
Net debt / EBITDA	0.78	0.65		0.89	0.54	0.50

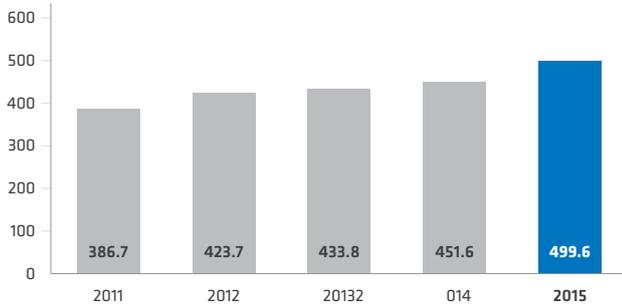
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	31.12.2015	31.12.2014	CHANGE	31.12.2013	31.12.2012	31.12.2011
<b>Assets</b>	<b>355,157</b>	<b>332,040</b>	<b>7.0%</b>	<b>314,365</b>	<b>313,281</b>	<b>283,224</b>
Non-current assets	233,280	214,278	8.9%	216,096	209,723	176,946
Current assets	121,877	117,762	3.5%	98,269	103,558	106,278
<b>Equity</b>	<b>228,124</b>	<b>216,472</b>	<b>5.4%</b>	<b>205,771</b>	<b>199,599</b>	<b>176,509</b>
<b>Liabilities</b>	<b>127,033</b>	<b>115,568</b>	<b>9.9%</b>	<b>108,594</b>	<b>113,682</b>	<b>106,715</b>
Interest-bearing debt	71,401	64,432	10.8%	59,398	59,254	62,206
Net debt	35,418	24,893	42.3%	33,028	21,950	18,689
Tangible assets / Total assets	92.6%	94.2%		93.5%	93.7%	93.5%
Equity ratio	64.2%	65.2%		65.5%	63.7%	62.3%

CONSOLIDATED STATEMENT OF CASH FLOWS	2015	2014	CHANGE	2013	2012	2011
Net cash from operating activities	37,357	31,603	18.2%	20,537	36,872	27,226
Net cash used in investing activities	( 35,206)	( 18,311)	( 92.3%)	( 26,601)	( 39,188)	( 22,577)
Net cash used in financing activities	( 5,173)	( 572)	-	( 3,558)	( 4,369)	( 11,495)
<b>Changes in cash and cash equivalents</b>	<b>( 3,022)</b>	<b>12,720</b>	<b>-</b>	<b>( 9,622)</b>	<b>( 6,685)</b>	<b>( 6,846)</b>
Effects of exchange rate fluctuations on cash held	( 534)	449	-	( 1,312)	472	30
<b>Cash and cash equivalents at year-end</b>	<b>35,983</b>	<b>39,539</b>	<b>( 9.0%)</b>	<b>26,370</b>	<b>37,304</b>	<b>43,517</b>

# KEY RATIOS

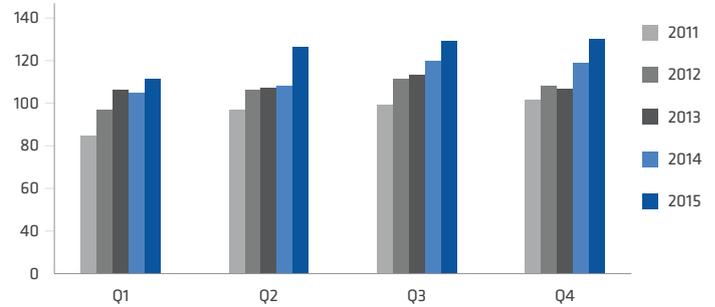
## REVENUE

Adjusted for one-off items\*  
EUR million



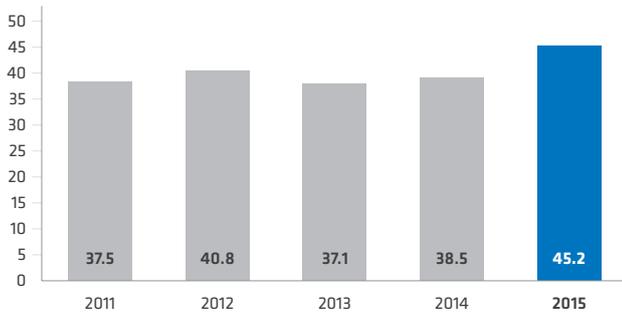
## REVENUE BY QUARTER

Adjusted for one-off items\*  
EUR million



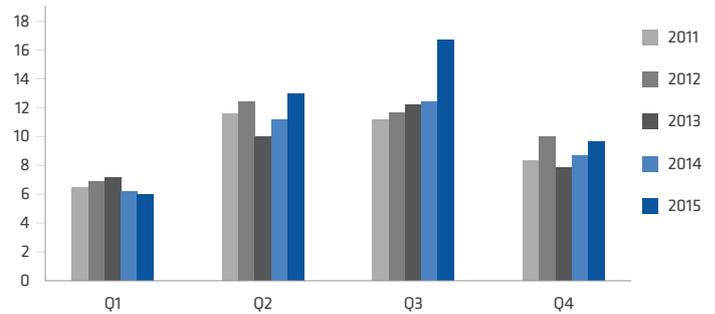
## EBITDA

Adjusted for one-off items\*  
EUR million



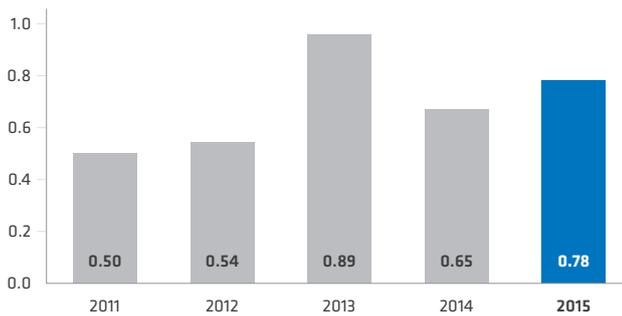
## EBITDA BY QUARTER

Adjusted for one-off items\*  
EUR million



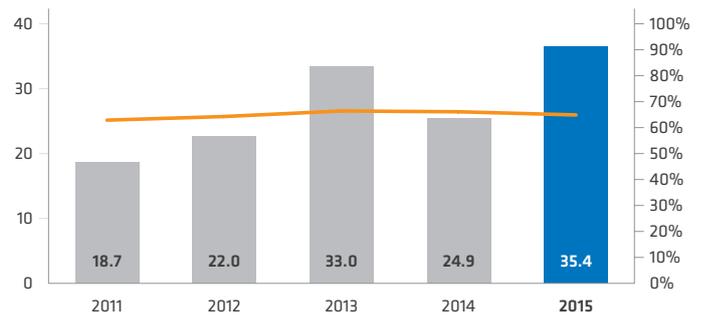
## NET DEBT / EBITDA

Adjusted for one-off items\*  
EUR million



## NET DEBT AND EQUITY RATIO

Equity ratio  
EUR million



\*In the graphs above, revenue and EBITDA have been adjusted for one-off items in 2011 and 2012. Revenue and EBITDA were reduced by EUR 6.4 million in first quarter 2011 due to a claim that had previously been written off. EBITDA was increased by EUR 0.7 million in second quarter 2011 due to the grounding of Godafoss. In 2012 EBITDA was increased by EUR 0.7 million in third quarter and EUR 1.0 million in fourth quarter due to expenses related to the Company's listing at Nasdaq Iceland. EBITDA in fourth quarter was further increased by EUR 2.9 million due to non-cash expenses related to forfeiture of stock options.

# KEY HIGHLIGHTS

EUR MILLION	2015	2014	CHANGE
Revenue	499.6	451.6	10.6%
EBITDA	45.2	38.5	17.3%
EBIT	20.5	15.3	33.4%
Net earnings	17.8	13.6	30.8%
CAPEX	48.3	20.5	135.6%
Net cash from operating activities	37.4	31.6	18.2%
Total assets	355.2	332.0	7.0%
Equity ratio	64.2%	65.2%	

## TRANSPORTED VOLUME

There was a 4.2% growth in the Company's liner services in the North Atlantic from 2014 to 2015. There was substantial growth in Iceland-related transport and Norway was back on track again after difficulties in the first quarter of the year, while there was a slight volume reduction in the Faroe Islands related to a change of transport routing of pelagic fish. Transported volume in the Company's reefer forwarding services grew by 7.5% from the previous year, mainly due to acquisitions of new companies within the group.

## OPERATIONAL RESULTS

Eimskip's net earnings in 2015 amounted to EUR 17.8 million, rising by EUR 4.2 million, or 30.8%, from 2014.

Total revenue amounted to EUR 499.6 million, compared to EUR 451.6 million in 2014, a 10.6% increase. Of total revenue, 71.7% came from the liner services segment, while 28.3% were related to forwarding services. In 2015, approximately 49% of total revenue was Iceland-related.

EBITDA, or operating profit, amounted to EUR 45.2 million in 2015 compared to EUR 38.5 million in 2014. The EBITDA ratio for the year was 9.0% compared to 8.5% in the previous year. EBIT for the year, or results from operating activities, amounted to EUR 20.5 million, compared to EUR 15.4 million in the previous year, up by 33.4%. The EBIT ratio was 4.1% in 2015 compared to 3.4% in 2014. The EBITDA contribution of companies acquired in 2015 amounted to EUR 1.8 million.

In October, the Company received a refund in the amount of EUR 14.1 million due to cancellation of the building of a container vessel in China. Of this, EUR 2.0 million was recorded as revenue. Salaries and related expenses for the year amounted to EUR 96.1 million, up by 17.9% from the previous year, where 6.6% is explained by general wage increases and the rest by increased activity and overtime, new group companies and currency exchange differences. In December 2015, a subsidiary holding company received a EUR 0.9 million fine relating to an operating company that went bankrupt before the 2009 composition. The fine was for the period from 2007 to 2009. The subsidiary holding company recognized this charge in the fourth quarter of 2015. The Company's subsidiary is in the process of appealing the case.

## FINANCIAL POSITION AND CAPITAL EXPENDITURE

Eimskip's balance sheet at year-end 2015 remained solid, with low leverage and a high equity ratio. The Company's assets amounted to EUR 355.2 million, compared to EUR 332.0 million at the end of 2014. Total capital expenditure, or CAPEX, amounted to EUR 48.3 million in 2015, including investments in the amount of EUR 3.4 million which did not affect cash flows. Of this, EUR 24.8 million were maintenance investments, which increased significantly from the previous year due to maintenance work and dockings of nine of the Company's 14 own vessels. In 2014, CAPEX amounted to EUR 20.5 million, including EUR 1.8 million not affecting cash flows, and maintenance investments amounted to EUR 16.5 million. The largest investments in 2015 were a new 10,000-ton cold storage facility in Hafnarfjörður, Iceland, and two new harbor cranes. Net acquisitions in operations and new companies amounted to EUR 8.9 million. Net cash used in investing activities amounted to EUR 35.2 million in 2015, compared to EUR 18.3 million in 2014.

Cash and cash equivalents amounted to EUR 36.0 million at year-end, compared to EUR 39.5 million at the end of 2014.

Equity amounted to EUR 228.1 million at the end of the year with an equity ratio of 64.2%, compared to EUR 216.5 million at the end of 2014 and a 65.2% equity ratio. Dividend in the amount of ISK 933.2 million, equal to EUR 6.3 million, was paid to shareholders in April 2015.

Interest-bearing debt at year-end 2015 amounted to EUR 71.4 million, compared to EUR 64.4 million at the end of 2014 and net debt stood at EUR 35.4 million, compared to EUR 24.9 million at year-end 2014.

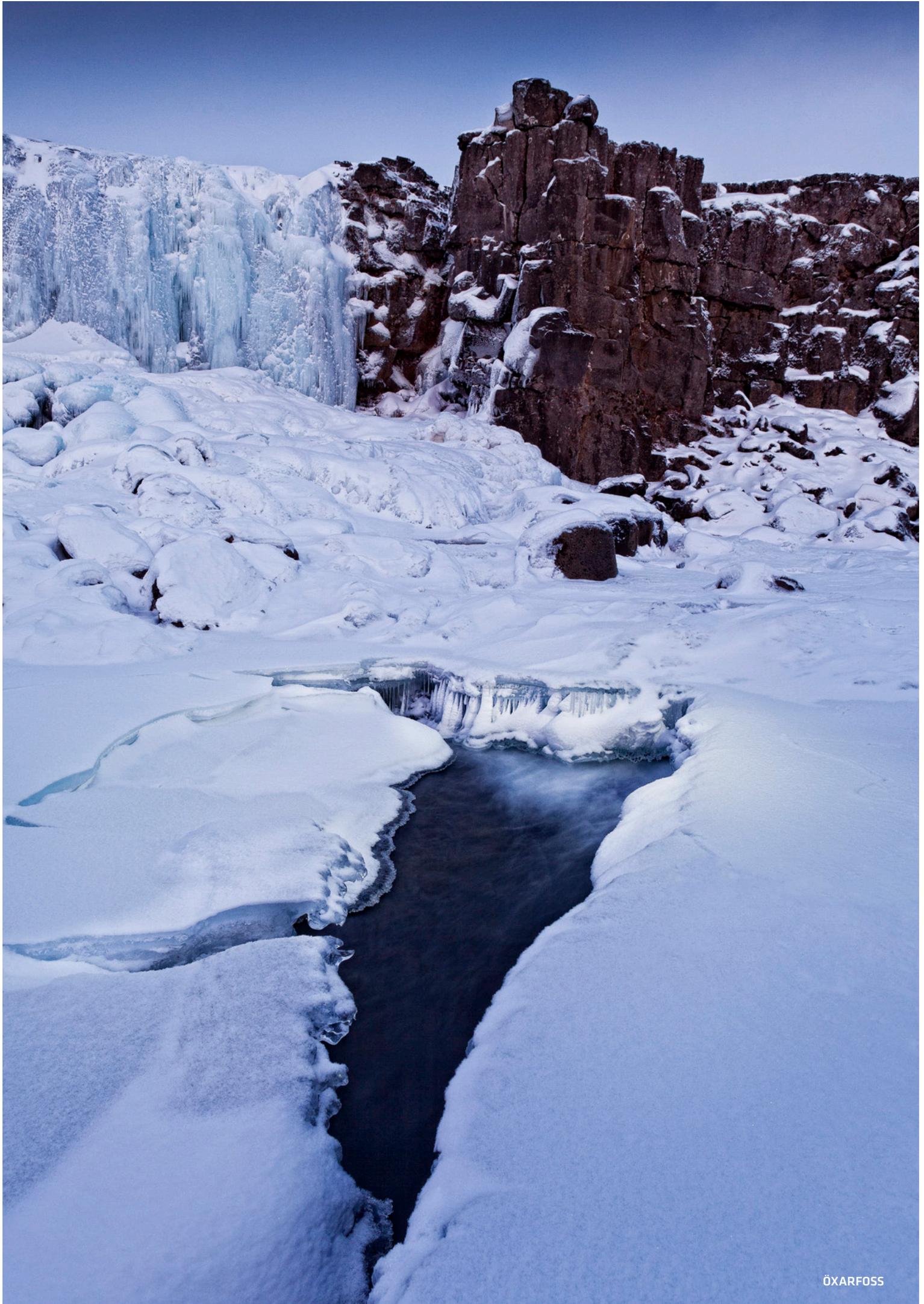
Net cash from operating activities in 2015 amounted to EUR 37.4 million, compared to EUR 31.6 million in 2014. The increase is mainly due to changes in current assets and liabilities.







# THE COMPANY



# THE COMPANY

Eimskip traces its roots back to 17 January 1914, when H.F. Eimskipafélag Íslands was founded with about 15,000 shareholders, representing almost 17% of the Icelandic nation.

The Company's vision is to be a leading transportation company, providing outstanding services through a dependable transport system in the North Atlantic and an extensive worldwide network of reefer logistics services.

Eimskip's obligations towards its stakeholders are to:

- Secure a good return for shareholders with sustainable and profitable operations leading to healthy growth.
- Create opportunities for employees to develop their skills in a good and healthy working environment with Eimskip's values as their guiding light.
- Show concern for the environment with a special emphasis on activities related to the environment, security and social responsibility.
- Create value for customers by delivering optimal logistics solutions focused on outstanding levels of service, quality and reliability.

Eimskip's employees observe the Company's values in their daily work:

## ACHIEVEMENT – COOPERATION – TRUST

Eimskip's transportation services include shipping, port operations, ocean and land transport, air-freight, warehousing, freight forwarding and expert advice on shipping and logistics. Eimskip currently operates 57 offices in 19 countries and works with 67 associates in 38 countries, making a network of 46 countries in total. The Company employs around 1,580 people worldwide and operates 20 vessels sailing on five different routes in the North Atlantic area.

Eimskip concentrates mainly on serving the North Atlantic, with a focus on its home market, where the Company has a strong position. The Company has defined its home market as lying in the North Atlantic, from the east coast of North America to the west and north coasts of Norway; in other words, Newfoundland and Labrador, Iceland, the Faroe Islands and Norway. Eimskip is the only containerized liner company offering direct services between Newfoundland and Labrador and Europe, between Newfoundland and Labrador and the USA and between North America and Northern Norway, connecting these areas with one comprehensive sailing schedule.

Eimskip specializes in shipping, logistics and supply-chain management and offers its customers solutions on sea, land and air, with a special emphasis on the handling and storing of all types of temperature-controlled cargo. Principal cargoes are frozen, salted and fresh fish, aluminum and a wide range of general goods from heavy machinery to fruit and vegetables. Over the years, Eimskip has built a network of its own offices and associates that links with its own shipping network, allowing it to provide its customers with comprehensive logistics services.

Eimskipafélag Íslands hf. currently owns nine direct subsidiaries, all of which are fully owned by Eimskip with one exception. These direct subsidiaries further own 50 subsidiaries which are mostly 100%-owned entities.

SECURE A GOOD RETURN FOR ...  
**SHAREHOLDERS**  
... with sustainable and profitable operations leading to healthy growth

SHOW CONCERN FOR THE ...  
**ENVIRONMENT**  
... with special emphasis on activities related to the environment, security and social responsibility



CREATE OPPORTUNITIES FOR ...  
**EMPLOYEES**  
... to develop their skills in a good and healthy working environment with Eimskip's values as their guiding light

CREATE VALUE FOR ...  
**CUSTOMERS**  
... by delivering optimal logistics solutions focused on outstanding levels of service, quality and reliability



The Executive Management of Eimskip consists of the President and CEO, the Chief Financial Officer and the Directors of International Operations, Iceland Domestic Operations, Ship Management and Transportation Services.

**Gylfi Sigfússon**, President and CEO, 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 the 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 and the Greenland-Icelandic Chamber of Commerce. Gylfi earned a Cand.Oecon. degree from the University of Iceland in 1990.

**Hilmar Pétur Valgardsson**, Chief Financial Officer, was born in 1973. He has worked for Eimskip since 1999 and as CFO from 2009. Before that he worked as CFO of HF. Eimskipafélag Íslands, now A1988 hf., from 2008 to 2009. He was CFO of Containerships Ltd. OY in Finland from 2006 to 2008 and Senior Manager of Eimskip's Financial Control Department from 2004 to 2006. Hilmar is currently an alternate board member and Managing Director of A Orange ehf. and a board member of various subsidiaries of Eimskipafélag Íslands hf. Before, Hilmar was a board member of Containerships UAB, Containership UAB, Containerships Polska, Air Atlanta Properties Ltd., Air Atlanta Aero Engineering Ltd., Vátryggingafélag Íslands hf. and Líftryggingafélag Íslands hf. Hilmar received a Cand.Oecon. degree from the University of Iceland in 1999.

**Bragi Thór Marinósson**, Executive Vice President of International Operations, was born in 1965. He has worked for Eimskip since 1993. Bragi has been Executive Vice President of International Operations since 2008, before which

he was Executive Vice President of North Atlantic Operations from 2006 to 2008, Executive Vice President of International Operations from 2004 to 2006, Managing Director of Eimskip Nederland B.V. from 1999 to 2004, Senior Manager of the International Department from 1997 to 1999, Quality Manager from 1995 to 1997 and Representative in the International Department from 1993 to 1995. Bragi is currently a board member of various subsidiaries of Eimskipafélag Íslands hf. Bragi is a board member of the British-Icelandic Chamber of Commerce and the Norwegian-Icelandic Chamber of Commerce. He received a Master's degree in Industrial Engineering from the Technical University of Denmark in 1993 and a B.Sc. degree in Mechanical Engineering from the University of Iceland in 1991.

**Guðmundur Nikulásson**, Vice President of Iceland Domestic Operations, was born in 1961. He has worked for Eimskip since 1997. Guðmundur has been Vice President of Iceland Domestic Operations since 2005. Before that he served as Senior Manager of Terminal Operations from 1997 to 2005. Guðmundur held the position of Chief Engineer for the City of Reykjavík from 1991 to 1997. From 1987 to 1991 he was a Consulting Engineer at Hnit hf. He is currently a board member of three subsidiaries of Eimskipafélag Íslands hf. In 1987 Guðmundur received a Civ.Ing. degree (M.Sc.) in Engineering from the Technical University of Denmark in Copenhagen. He received a B.Sc. degree in Civil Engineering from the University of Iceland in 1985.

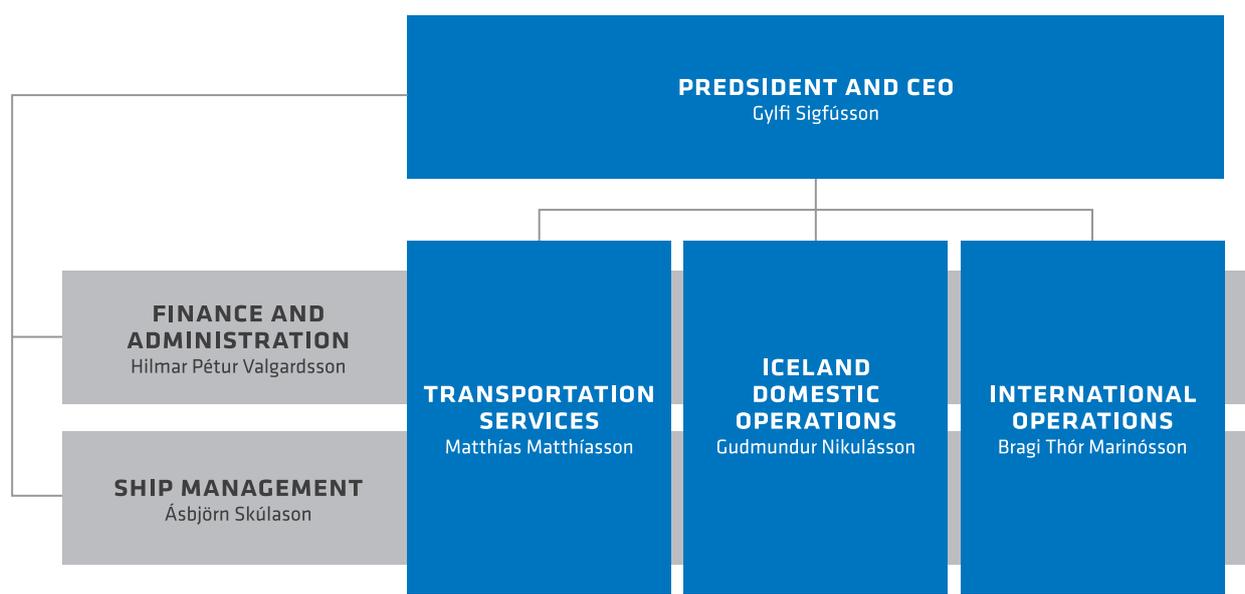
**Ásbjörn Skúlason**, was born in 1955. He has worked for Eimskip since 1969. Ásbjörn has been Vice President of Ship Management since January 2015 and was Vice President of Liner and Vessel Operations from 2008 to 2014. Before that he served as Senior Manager of the Liner and Vessel Department from 2004 to 2008, Senior Manager of the Bulk Department from 1998 to 2004, Operational Manager of Longship, a former UK-based subsidiary of Eimskip, from 1996 to 1998, Senior Manager of the Vessels' Technical Department from 1990 to 1996 and Crew Manager from 1980 to 1992. His other experience within Eimskip includes being a terminal worker, an AB seaman and a deck officer on Eimskip's vessels from 1969 to 1980. Ásbjörn earned a Master's certificate on all cargo vessels from the Reykjavík College of Navigation in 1979 and received a commercial Diploma from the Commercial College of Iceland in 1973.



# ORGANIZATION

**Matthías Matthíasson**, Vice President of Transportation Services, was born in 1966. He worked for Eimskip from 1983 to 2004 and again from 2009. Matthías has been Vice President of Transportation Services from January 2015 and was Vice President of Sales and Services from 2009 to 2014. Before that he was Vice President of Special Projects and Managing Director of Eimskip Germany in 2009, Managing Director of Komatsu Denmark from 2004 to 2009, Managing

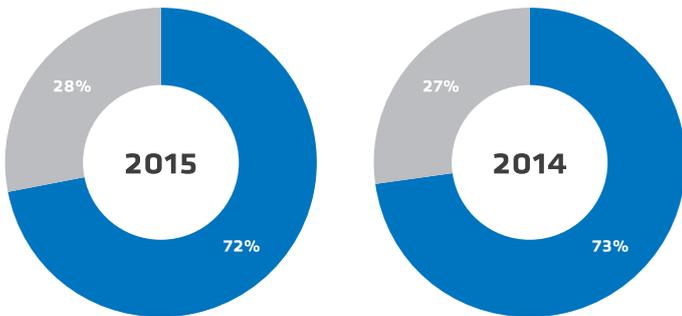
Director of Eimskip UK from 2003 to 2004 and Senior Manager of Eimskip's Export Department from 2001 to 2003. He was Senior Manager of Eimskip's Vehicles, Equipment and Special Projects from 2000 to 2001, Key Accounts Manager of Eimskip International Sales and Services from 1997 to 2000 and a sales representative of Eimskip's Import Department from 1993 to 1997. Matthías studied Education at Hedmark University in Norway from 1993 to 1996.



# OPERATIONS

## REVENUE BY SEGMENT

■ LINER SERVICES ■ FORWARDING SERVICES

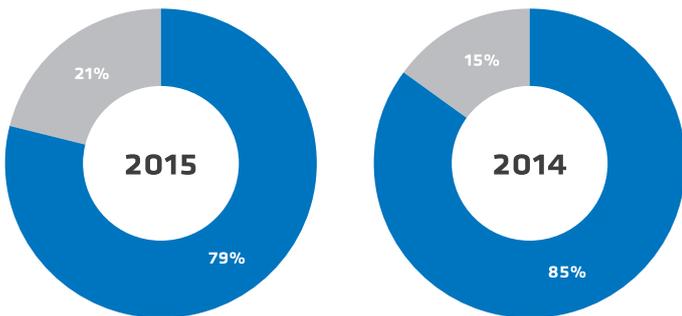


Eimskip's operations are divided into two principal market segments: liner services in the North Atlantic and forwarding services, mainly in Asia, Europe and North America.

In 2015, approximately 72% of Eimskip's revenues came from liner services and 28% from forwarding services. The split of EBITDA between segments in 2015 was about 79% from liner services and 21% from forwarding services.

## EBITDA BY SEGMENT

■ LINER SERVICES ■ FORWARDING SERVICES



### LINER SERVICES

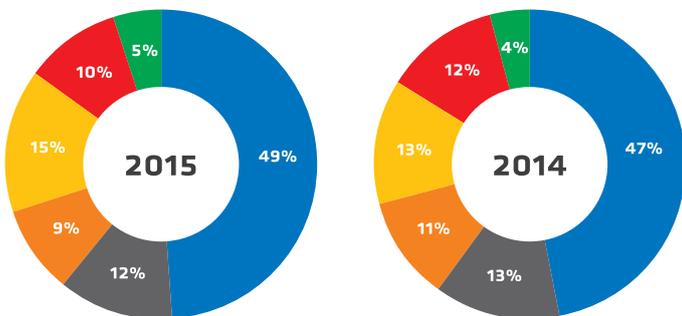
- The core of the Company's operations
- Eimskip's home market includes Newfoundland and Labrador, Iceland, The Faroe Islands and Norway.
- 20 vessels in operation
- Port operations
- Chilled and cold storage facilities
- Warehousing
- Trucking and distribution
- Air-freight services
- Agency services

### FORWARDING SERVICES

- Main focus on reefer forwarding but general cargo is building up
- Efficient system based on a network of own offices in 19 countries
- Strong cooperation with the large deep-sea lines and 67 associates in 38 countries

## GEOGRAPHICAL SPLIT OF REVENUE

■ ICELAND ■ FAROE ISLANDS ■ NORWAY ■ EUROPE ■ ASIA ■ OTHER





# LINER SERVICES

## LINER SERVICES

Eimskip operates 20 vessels in the North Atlantic. Thirteen are used in liner services, on five different sailing routes; one is in bulk services, three reefer vessels offer spot services and three are ferries operated in Iceland.

The liner services also offer short-sea services in Europe and North America, transatlantic services and bulk transport. Liner services also include terminal operations, chilled and cold storage facilities, warehousing, trucking and distribution, air-freight services and agency services.

The Company's reefer vessel services provide transportation of frozen or chilled seafood and other perishable products, either in full or partial loads of frozen or chilled consignments in bulk services with specialized vessels, direct from port to port.

Liner services accounted for approximately 72% of the Company's revenue in 2015.

## HOME MARKET

Eimskip has defined its home market as the North Atlantic, stretching from the east coast of North America to the west and north coasts of Norway and embracing Newfoundland and Labrador, Iceland, the Faroe Islands and Norway. These countries are all rich in natural resources.

Seafood represents a substantial part of total cargo in the Company's home market.

## SAILING SCHEDULE AND VESSELS

Fourteen of the 20 vessels operated by Eimskip are owned and six are chartered. Thirteen serve the North Atlantic liner schedule and seven are deployed in other operations in the North Atlantic. The vessels are highly competitive in terms of their size, cranes, reefer plugs, low draft and maneuvering capabilities to enter narrow ports.

Eimskip's liner sailing schedule includes nine container vessels and four reefer vessels. The sailing schedule offers container and reefer vessel services, connecting the Company's home market to other markets in North America, the UK, Scandinavia, Russia and Continental Europe.

Eimskip constantly re-evaluates its vessel fleet and schedules with the aim of optimizing its operational efficiency. The most recent changes were made in October 2015 when services of the Gray Line were expanded by adding another chartered 500 TEU vessel to the line to increase capacity and with new port calls in Århus in Denmark, Halmstad in Sweden and Swinoujscie in Poland.

**The Blue Line** offers weekly services from Iceland to the Faroe Islands, the Netherlands, Germany and Denmark and then back to the Faroe Islands and Iceland. The vessels serving on the Blue Line are the Godafoss and Dettifoss.

**The Yellow Line** offers weekly services from Iceland to the Faroe Islands, England and the Netherlands and then back to England and Iceland. The vessels serving on the Yellow Line are the Brúarfoss and Lagarfoss.

**The Green Line** offers direct services from the east coast of the United States, Nova Scotia and Newfoundland and Labrador to Iceland, England, the Netherlands and Northern Norway and back. The route calls several ports around the coast of Iceland. The Selfoss, Skógafoss and Reykjafoss serve on the Green Line.

**The Gray Line** offers weekly services between the Faroe Islands, Scotland, Denmark, Poland, Norway and Sweden and then back to the Faroe Islands. The vessels serving on the Gray Line are the Blikur and Lómur.

**The Orange Line** offers weekly services from Murmansk in Russia, down the Norwegian coast on its way to the Netherlands, England, Scotland and then back to Norway. The vessels serving on the Orange line are the Holmfoss, Polfoss, Svartfoss and Vidfoss.

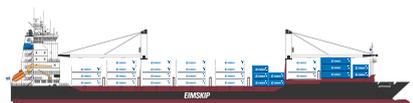
Seven vessels serve Other Operations in the North Atlantic. Eimskip's reefer transportation services are specially focused on transportation of frozen or chilled seafood and other perishable products in bulk direct from port to port, in whole or partial loads. These services are carried out by the specialized reefer vessels Langfoss, Stigfoss and Nordvåg. Eimskip offers specialized transport for bulk cargo in whole loads or according to the needs of its customers. When shipping bulk cargo there are no schedules or sailing routes, since the best way to ship such cargo is based on the nature and quantity of the cargo. The Laxfoss is used in bulk transport. Finally, the ferry Herjólfur offers regular services between the Westman Islands, off the south coast of Iceland, and Iceland's mainland, and the ferries Baldur and Særún serve on the west coast of Iceland.

# VESSEL FLEET

## BLUE LINE



**GODAFOSS** O  
 Built 1995  
 TEU 1,457  
 Gross Tonnage 14,664



**DETTIFOSS** O  
 Built 1995  
 TEU 1,457  
 Gross Tonnage 14,664

## YELLOW LINE

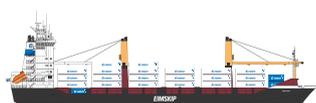


**BRÚARFOSS** O  
 Built 1992  
 TEU 724  
 Gross Tonnage 7,676



**LAGARFOSS** O  
 Built 2014  
 TEU 875  
 Gross Tonnage 10,106

## GREEN LINE



**SELFOSS** O  
 Built 1991  
 TEU 724  
 Gross Tonnage 7,676

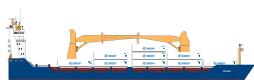


**SKÓGAFOSS** C  
 Built 2007  
 TEU 698  
 Gross Tonnage 7,545

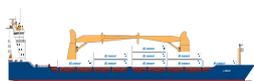


**REYKJAFOSS** C  
 Built 1999  
 TEU 712  
 Gross Tonnage 7,541

## GRAY LINE

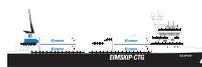


**BLIKUR** C  
 Built 2003  
 TEU 505  
 Gross Tonnage 4,454

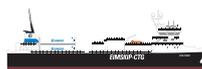


**LÓMUR** C  
 Built 2001  
 TEU 505  
 Gross Tonnage 4,454

## ORANGE LINE



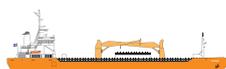
**HOLMFOSS** O  
 Built 2007  
 Reefer (bulk/TEU 24)  
 Gross Tonnage 3,538



**POLFOSS** O  
 Built 2008  
 Reefer (bulk/TEU 24)  
 Gross Tonnage 3,538

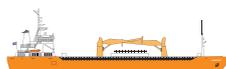


**SVARTFOSS** O  
 Built 2005  
 Reefer (bulk/TEU 48)  
 Gross Tonnage 2,990

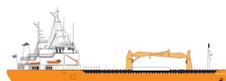


**VIDFOSS** O  
 Built 1990  
 Reefer (bulk)  
 Gross Tonnage 3,625

## OTHER OPERATIONS IN THE NORTH ATLANTIC



**LANGFOSS** O  
 Built 1991  
 Reefer (bulk)  
 Gross Tonnage 3,625



**STIGFOSS** O  
 Built 1990  
 Reefer (bulk)  
 Gross Tonnage 3,625



**NORDVÅG** C  
 Built 1979  
 Reefer (bulk/TEU 44)  
 Gross Tonnage 2,854



**LAXFOSS** O  
 Built 1995  
 Bulk Cargo  
 Gross Tonnage 1,682



**HERJÓLFUR** C  
 Built 1992  
 Ferry  
 Gross Tonnage 3,354



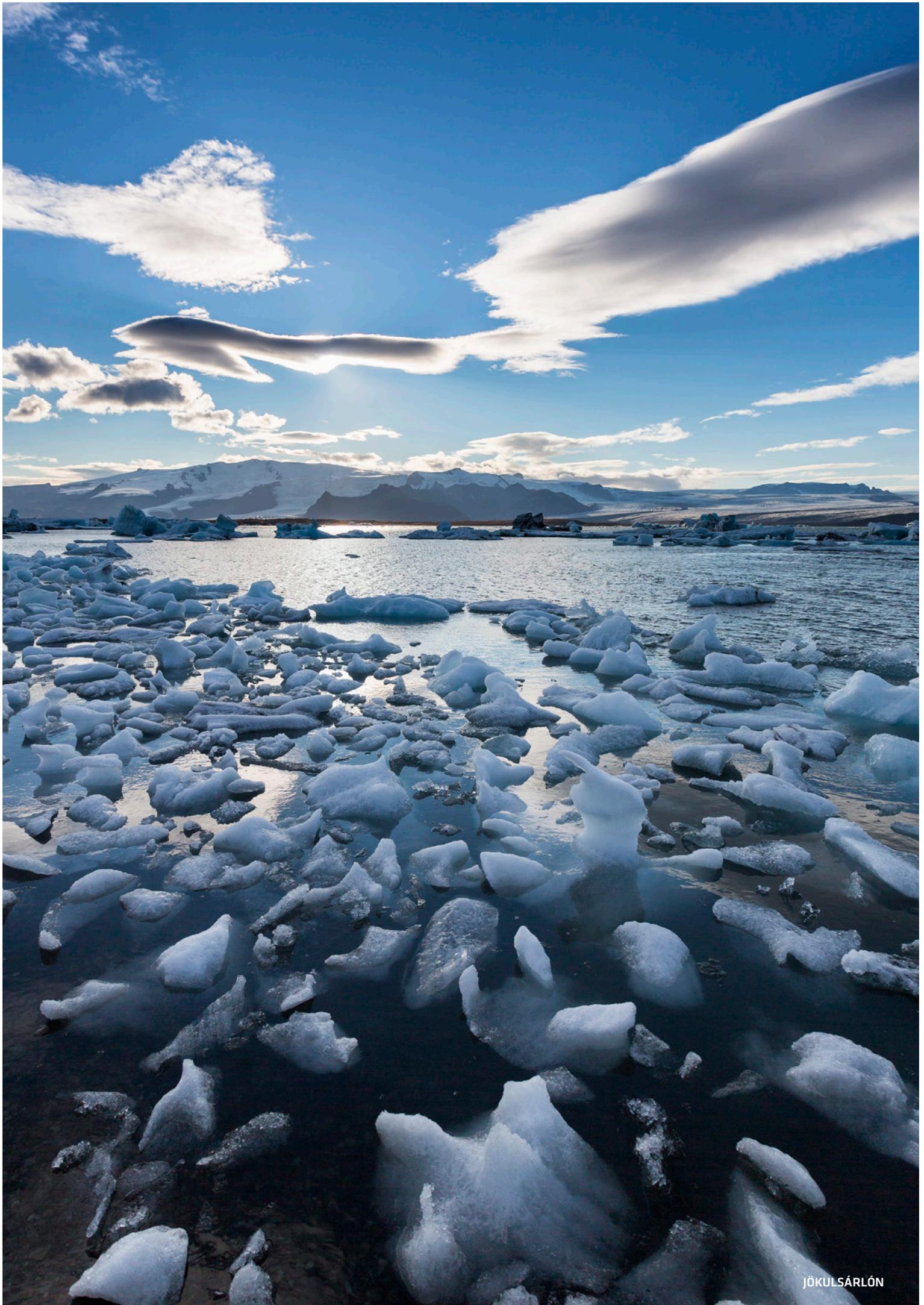
**BALDUR** O  
 Built 1979  
 Ferry  
 Gross Tonnage 1,677



**SAERÚN** O  
 Built 1978  
 Ferry  
 Gross Tonnage 194

O OWN VESSEL

C CHARTERED VESSEL



# LINER SERVICES

## CHILLED AND COLD STORAGE FACILITIES



## WAREHOUSES



## TEU - TWENTY-FOOT EQUIVALENT UNIT



## CONTAINER CRANES AND FORKLIFTS

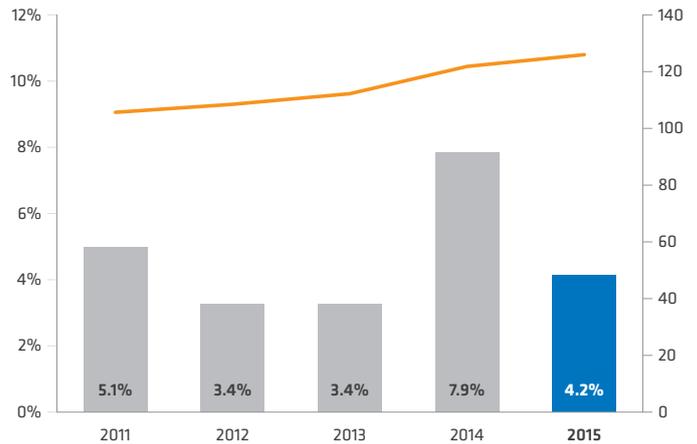


## TRUCKS, VANS AND TRAILERS



## VOLUME CHANGES IN LINER SERVICES

Changes from previous year



The volume index on the right axis is based on the 2010 volume as 100

### OTHER OPERATING ASSETS

The Company operates terminals in thirteen locations in four countries: six in Iceland, three in the Faroe Islands and two each in Norway and Newfoundland and Labrador.

Eimskip owns or operates 15 chilled and cold storage facilities in six countries: five in Iceland, three in China, two in each of the Faroe Islands, Norway and Newfoundland and Labrador and one in Sweden. Eimskip also operates a total of 27 warehouses for dry cargo in eight countries: 14 in Iceland, three each in USA and the Faroe Islands, two in each of Sweden and the UK and one each in Norway, Denmark and the Netherlands.

The Company's container fleet consists of around 21,400 TEU (twenty-foot equivalent unit), including about 5,500 reefer containers, 12,600 dry containers and 3,300 containers of other types.

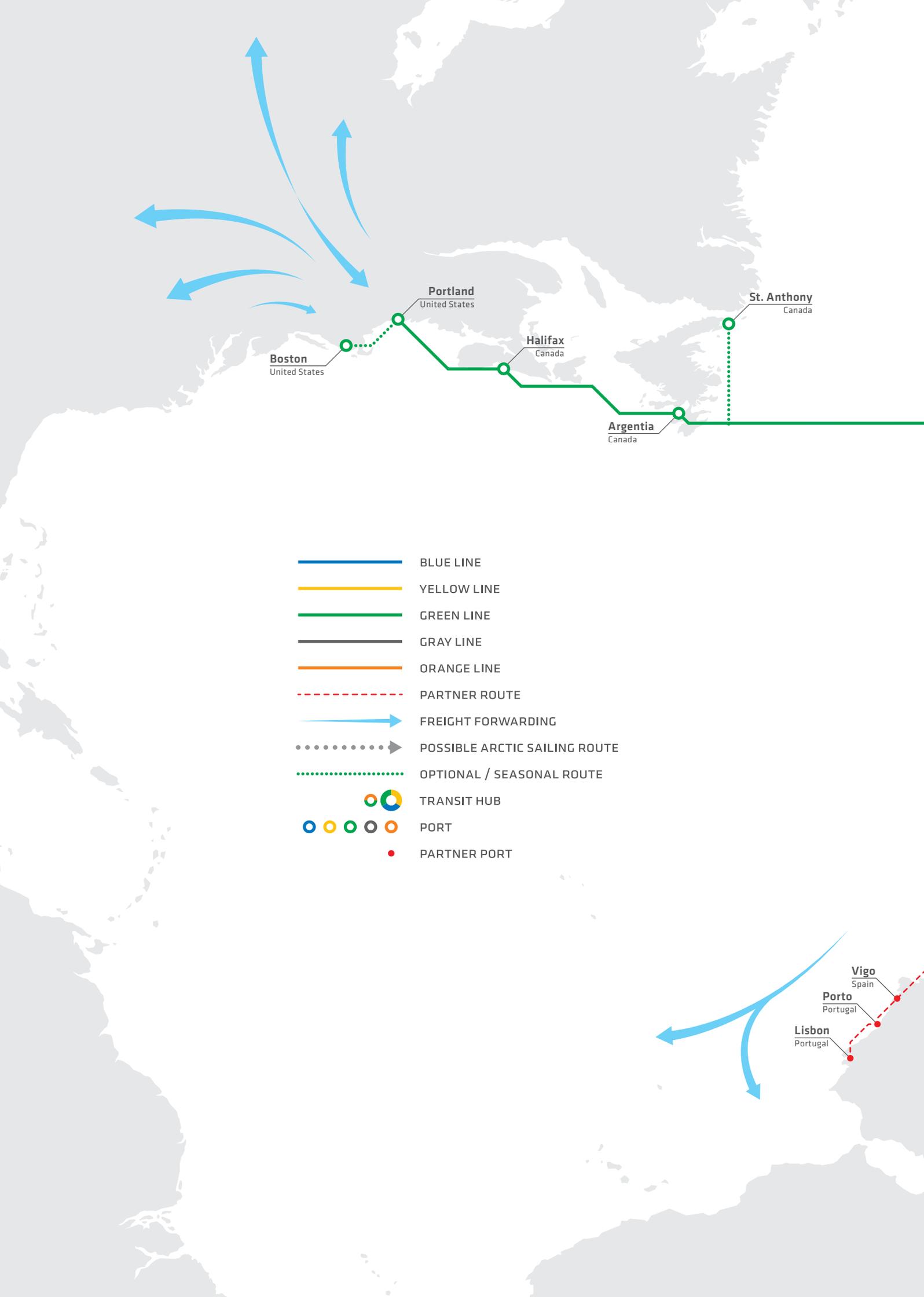
Trucking and distribution services are operated in Iceland, the Faroe Islands, Denmark, Netherlands and USA. The Company operates approximately 400 container cranes and forklifts and 740 trucks, vans and trailers.

### TRANSPORTED VOLUME

Following the international financial crisis in 2008, transport volumes decreased significantly in Iceland and the Faroe Islands but growth continued in the Norwegian market. The contraction in Iceland and the Faroe Islands was mainly in general and construction cargoes, while the volume of exports of fish and aluminum remained relatively stable. Volumes of seafood tend to maintain a certain stability compared to other cargo types, being mostly independent of other economic conditions. In Norway, the total allowable groundfish catch has been strong during recent years.

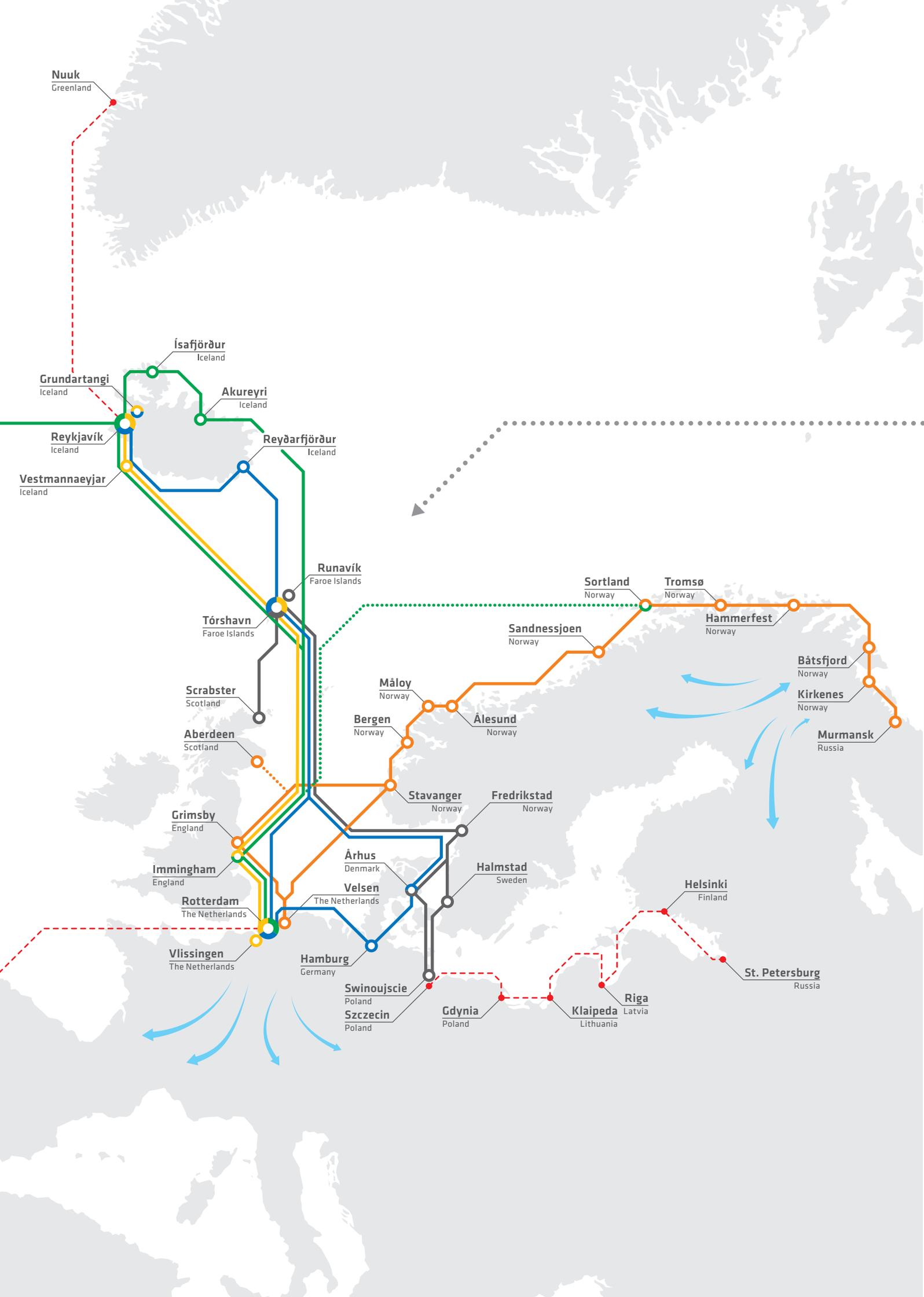
Transported volume in Eimskip's liner services in 2015 grew by 4.2% from the previous year. There was substantial growth in Iceland-related transport while there was a slight volume reduction in the Faroe Islands, resulting from a change of transport routing of pelagic fish. Norway was back on track again after difficulties in the first quarter of the year.

As shown on the graph above, transported volume in the Company's liner services has gradually been increasing since 2011. The volume index on the right axis is based on the 2010 volume as 100.



- BLUE LINE
- YELLOW LINE
- GREEN LINE
- GRAY LINE
- ORANGE LINE
- PARTNER ROUTE
- FREIGHT FORWARDING
- POSSIBLE ARCTIC SAILING ROUTE
- OPTIONAL / SEASONAL ROUTE
- TRANSIT HUB
- PORT
- PARTNER PORT





# LINER SERVICES

## ICELAND

Eimskip's operations in Iceland are based in Reykjavík and in thirteen locations around the country. The Company's liner system and bulk transport operations are monitored from Iceland. Five container terminals are operated in Iceland: in Reykjavík, Ísafjörður, Akureyri, Reydarfjörður and the Westman Islands, and a seafood and bulk terminal is located in Hafnarfjörður. Three chilled and cold storage facilities are operated in Reykjavík and two in Hafnarfjörður. Fourteen warehouses for dry cargo are operated, in Reykjavík and in other locations around the country. The largest one is the Warehouse Hotel in Sundahöfn in Reykjavík, which opened in 2003 and has a capacity of 23,000 pallets. In addition to traditional warehousing services, the Warehouse Hotel offers inventory management and a bonded warehouse. Trucking and distribution services are operated through the trucking network of Flytjandi, which has about 80 service points located all around the country and offers door-to-door services to customers in Iceland. Eimskip operates the ferry Herjólfur, which offers regular services between the Westman Islands and the mainland. The subsidiary Seatours in Stykkishólmur on the west coast, acquired in 2015, operates the ferries Baldur and Særún. Finally, Eimskip offers air-freight services and all general sales and services related to transportation.

Eimskip's sailing schedule is tailored to meet the needs of customers. It includes coastal services in Iceland, with direct connections to the UK and mainland Europe and to Newfoundland and Labrador, Nova Scotia and the east coast of the United States.

Exporting fresh, frozen, salted and dried fish products has always been a large part of Eimskip's operations in Iceland and the demand for processed fishery products of all types is rising all over the world. It is the Company's ambition to offer customers outstanding services, and this calls for constant improvements in its operating procedures. Demand for processed fresh fish has been growing in recent years, making Eimskip fully aware of its responsibility when it comes to maintaining the quality and value of the product. Eimskip is working closely with the seafood industry on developing a refrigeration system that could extend the shelf life of fresh fish even beyond what it is today.

TVG-Zimsen ehf. is one of Eimskip's direct subsidiaries and is a forwarding company located in Iceland. TVG-Zimsen offers all types of services related to importing and exporting, with a full range of transit services around the world by air, sea or land. Gára ehf., TVG-Zimsen's subsidiary, is offering agency services for cruise vessels, trawlers and other vessels. The company is affiliated with major transportation companies around the world, utilizing their broad service networks as well as Eimskip's network and transport system. TVG-Zimsen traces its roots back to the Icelandic stevedoring company Jes Zimsen which was established in 1894 and to TVG, the Bonded Warehouse/Free Zone facility established in 1965.

In the beginning of 2015, Eimskip started construction of a 10,000-ton cold storage facility in Hafnarfjörður, an addition to the current 3,000-ton facility there. The new facility was finalized and in full operation before the end of the year. Furthermore, the Company invested in 22,410 square meters of land

at Grundartangi and two new harbor cranes, one located at Grundartangi and the other in Reydarfjörður. Eimskip is currently serving Nordurál, the Century Aluminum plant at Grundartangi, and the investments will create further opportunities for Eimskip's services in the area.

## THE FAROE ISLANDS

In the Faroe Islands, Eimskip operates the company P/f Faroe Ship, which has a 97-year history. Since its formation in 1919 the company has epitomized Faroese initiative and independence, founding the Faroe Islands' first regular overseas connection which had enormous implications for the development of the Faroese economy throughout the century.

Exports from the Faroe Islands consist mainly of seafood products, while imports embrace a wide range of commodities. Faroe Ship operates a container terminal, a chilled and cold storage facility and a warehouse in Torshavn, a chilled and cold storage facility in Klaksvík and warehouses in Runavík and Tvöroyri. The company operates the country's largest fleet of trucks, a forwarding and air-freight division, known as Faroe Express, and the agency for Eimskip's liner services. Convenient access to a large fleet of dry and reefer containers gives customers further reasons to choose Faroe Ship for their imports or exports. Furthermore, Faroe Ship offers maritime agency services which include port clearance and other services for all types of vessels.

Faroe Ship has a leading position in the Faroese transportation market and offers weekly services between the Faroes and the UK, mainland Europe, Scandinavia and Iceland. Eimskip's Gray Line offers weekly services between the Faroe Islands, Scotland, Denmark, Poland, Norway and Sweden and then back to the Faroe Islands. The container vessels Blikur and Lómur serving on this line are named after Faroese birds; the names have been used for Faroe Ship's vessels for decades.

The Faroe Islands have become an important transit hub in Eimskip's network. Being a subsidiary of Eimskip, Faroe Ship is an integrated part of Eimskip's transport network. In cooperation with Maersk, regular links to Asia, Africa and the Middle East also form a part of Faroe Ship's transport system. Thus, the company covers the Faroe Islands through its own infrastructure, Europe and North America through Eimskip and the rest of the world through its business with Maersk.

Faroe Ship's market conditions require constant adaptation to customer demands and continuous product and market development. The company has developed capacity and skills to handle growing exports of pelagic fish, salmon and other species in the Faroese seafood industry and also general imports from all over the world.





# LINER SERVICES

## NORWAY

Eimskip's operations in Norway include both its liner system operations and forwarding services. Eimskip Norway AS now operates in six locations along the Norwegian coast.

The company's mission is to be the supplier of choice for internationally competitive, high-quality transportation and logistics services, with a focus on Eimskip's home market in the North Atlantic and in other markets where viable. Providing total logistics solutions, Eimskip Norway puts its customers in touch with a long-established worldwide network of quality storage and transport facilities in strategic locations.

Eimskip Norway operates a container terminal, a chilled and cold storage facility and a warehouse in Sortland, a terminal and chilled and cold storage facility in Kirkenes and offers cold storage services in Tromsø and Ålesund. It operates a fleet of specially-built vessels serving the Norwegian market; these are side-loaded and can enter narrow ports. The company provides flexible and comprehensive services with direct port-to-port transport of whole or partial loads of reefer consignments, connecting Scandinavia and Europe to the North Atlantic, Russia, Portland and the Baltic. Weekly services with four vessels on the Orange Line run from Murmansk in Russia along the Norwegian coast to the Netherlands and the UK and back to Murmansk. The liner agency for Eimskip is in Sortland and Fredrikstad and its reefer logistics center is in Ålesund.

Eimskip Norway has a strong presence in Northern Norway and is the only containerized operator offering direct services between Northern Norway and North America on the Green Line. The company also serves the oil industry and other industries in Norway.

## NEWFOUNDLAND AND LABRADOR

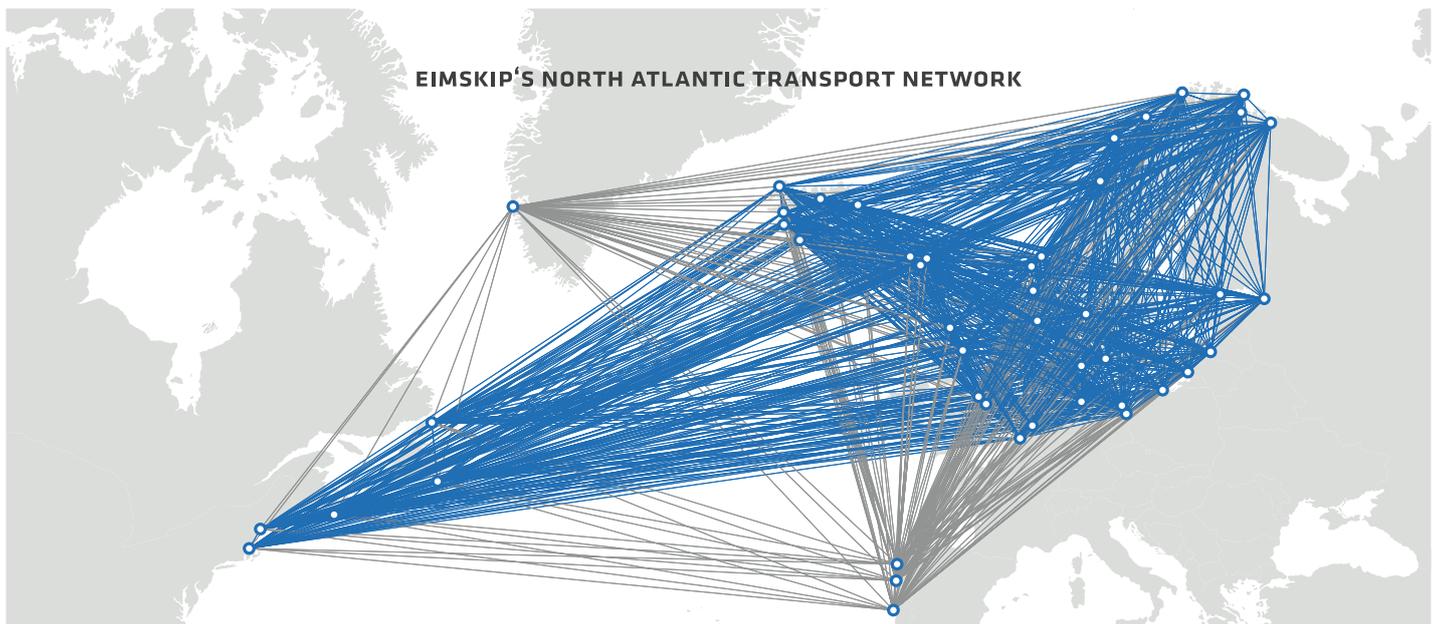
Eimskip began its regular services to Argentia in Newfoundland and Labrador in 1989 and opened an office in St. John's, the capital of Newfoundland and Labrador, a year later. The purpose of calling in Newfoundland and Labrador was merely to serve the local seafood industry and the selection of Argentia as a port of call was mainly driven by the ice-free status of the port.

Eimskip's operations in Newfoundland and Labrador, under the name Eimskip Canada Inc., consist both of its liner system operations and its forwarding services. The operations are located in St. John's, where the Company offers all general transportation services, specializing in seafood and industrial cargo, and handles agency functions. Argentia and St. Anthony are its ports of call. A special focus is on transportation of seafood from Newfoundland and Labrador mainly to Europe and Asia. Eimskip is the only containerized shipping company offering direct services between Newfoundland and Labrador and Europe and between Newfoundland and Labrador and the USA.

In Newfoundland and Labrador, Eimskip has focused its services on two main revenue streams, the oil and gas industry and the traditional seafood industry. The Company is not new to the oil and gas sector: Eimskip in Canada has been working with reliable partners since the beginning of oil exploration and drilling in Newfoundland and Labrador and has developed a good relationship with certain offshore drilling companies. Within the seafood segment, Eimskip is in a strong position with its cold storage services in Harbour Grace and St. Anthony, its transatlantic services and its connection to Portland, Maine, in the USA. In cooperation with short-sea operators in Europe, Eimskip is offering services into the Baltic and Russia, but due to the Russian food embargo the transported volume to the area has reduced. Utilization of Eimskip's distribution and reefer forwarding network in USA, Europe and Asia has also been promising.

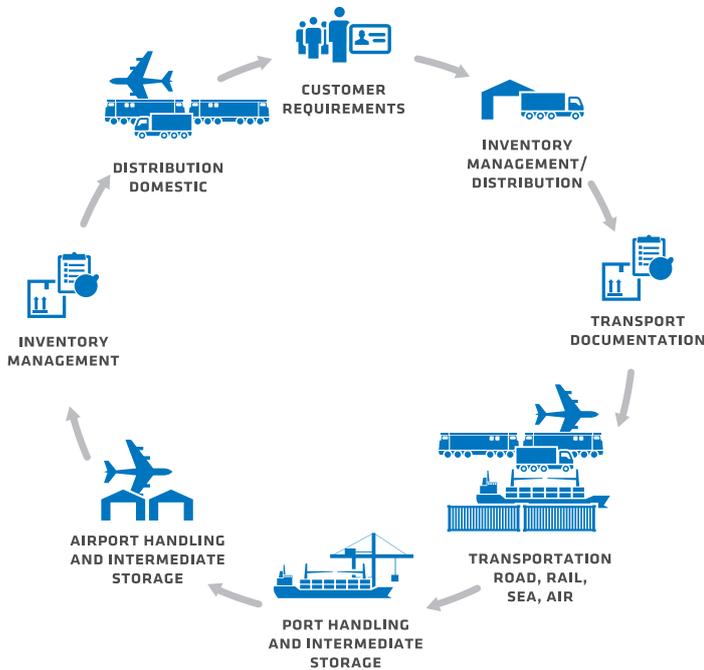
The addition of Portland, Maine, to Eimskip's ports of call has greatly strengthened the connection between Canada and the New England area, since Portland allows for shorter transit times and a more consistent schedule. Imports to Newfoundland and Labrador from USA, Europe and Asia have increased; this is mainly due to larger investment projects in the oil, mining and electric power industries.

In the beginning of 2015, Eimskip acquired the cold storage operation of St. Anthony Cold Storage Ltd. in cooperation with Harbour Grace Shrimp Company Ltd. Eimskip also acquired the forwarding company Cargocan Agency Ltd., located in St. John's. Both companies will strengthen and extend the Company's services in Newfoundland and Labrador.



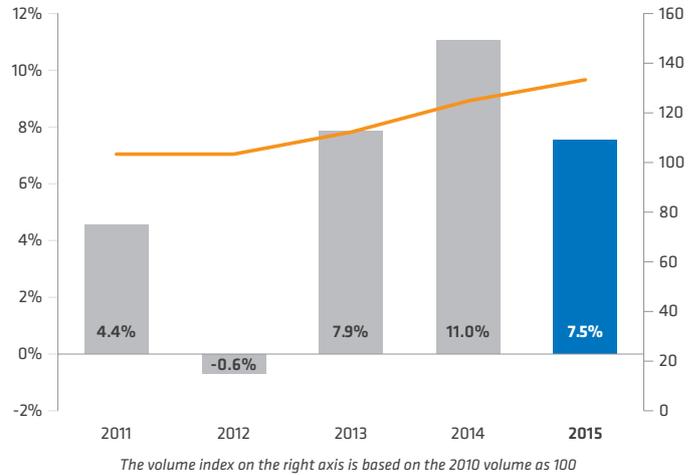
# FORWARDING SERVICES

## EIMSKIP'S TRANSPORTATION SYSTEM



## VOLUME CHANGES IN REEFER FORWARDING SERVICES

*Changes from previous year*



## FORWARDING SERVICES

Eimskip's forwarding services include international reefer and general forwarding, concentrating mainly on Asia, Europe and North America. Services in Asia include intra-trade in Asia. Forwarding services accounted for about 28% of the Company's revenue in 2015.

Eimskip started its forwarding services in Asia by opening an office in Qingdao, China, in 2004, starting out with 4,000 TEU. The Company currently operates a total of seven offices in Asia. The forwarding services of the group handled a total of 147,000 TEU in 2015. East-West trades are the largest, followed by the Intra-Asia trade.

Forwarding services are transportation solutions which are outside the Company's own operating system; nevertheless, they and the liner services support each other. The international forwarding market is diverse and very competitive, with many companies offering forwarding services. Eimskip is following its customers in their globalization by creating a service network in cooperation with various transportation companies all over the world. This service network is constantly evolving and attracting new customers. Eimskip has built valuable relationships and acquired extensive knowhow in the reefer forwarding trade through its other operations over the years. The Company focuses on selling forwarding services utilizing its global network, mainly in the reefer sector where seafood products play an important role. The Company is also involved in general forwarding of dry cargo, offering various logistics solutions worldwide. The largest markets in Eimskip's general forwarding are China, the Netherlands and Germany.

Eimskip has been expanding its logistics network in Asia. Since 2014 it has been a 30% partner in a joint venture with the Qingdao Port Authority operating a

50,000-ton cold storage facility in Qingdao. The port authority's selection of Eimskip as a partner is an important factor in strengthening the facility's operation and creating new opportunities.

Eimskip's network consists of 57 offices of its own and 67 associates in a total of 46 countries in Europe, America, Asia and Africa.

### TRANSPORTED VOLUME

Cargo volume in international forwarding services is dependent on seaborne perishable reefer cargoes in which fish products play the most important role. The volume in reefer forwarding is more stable than in dry forwarding due to reefer cargo being less dependent on economic fluctuations, since consumption of food products is usually more stable than that of other products. Other perishable cargoes are meat, fruit and vegetables.

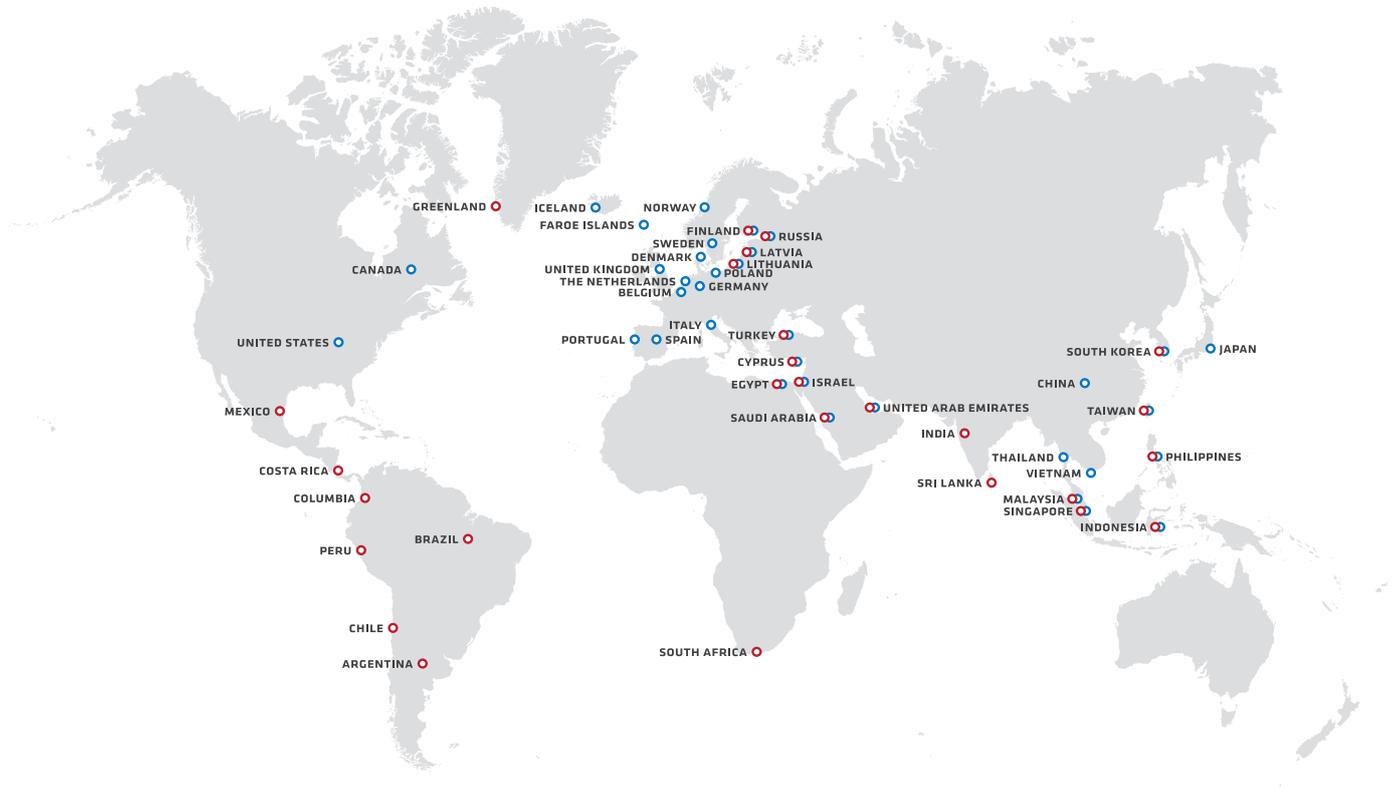
Transported volume in Eimskip's reefer forwarding services in 2015 increased by 7.5% from the previous year. The main reason for the growth are new companies acquired in 2015 and more cargo flow between Asia and Europe. The Intra-Asian business is also strengthening due to new commodities and new markets.

As on the graph above, transported volume in the Company's reefer forwarding services has gradually been increasing since 2011. The volume index on the right axis is based on the 2010 volume as 100.

# OPPORTUNITIES IN TRANSPORTATION

57 OWN OFFICES AND 67 ASSOCIATES IN 46 COUNTRIES

○ OWN OFFICES    ○ ASSOCIATES



## OPPORTUNITIES IN TRANSPORTATION

The opportunities in shipping seem to be numerous and currently one of the interesting ones is to connect sea and air-freight together more than is being done today. For example, Eimskip exports fresh salmon to the UK from where it is flown to the US, something which can also be done with fresh whitefish to the US or to markets in Asia.

Eimskip sees various growth opportunities in the transportation market in the North Atlantic in the coming years. The seafood industry of the countries within Eimskip's home market is restricted by catch quotas that are decided annually, which means that when quotas are either increased or reduced this affects the transported volume of seafood from these countries. Larger quotas may create new opportunities for the Company. Changed methods of processing fish, and arrangements for extending the shelf life of fresh fish, may also create opportunities in transportation. Eimskip is constantly evaluating and improving its services to gain a competitive advantage and increase value for its customers.

Changes made to the Company's sailing schedule in recent years have resulted in a more flexible and powerful transportation system with increased capacity and service reliability, which creates new opportunities by opening up new markets to current and future customers and by enabling the Company to respond to requirements from them. There are also growth opportunities related to new projects in the North Atlantic, for example in the fishing and fish-farming industries, heavy industry, oil and mining, as well as terminal services, infrastructure projects and other potential projects connected with the Arctic sailing route.

In forwarding, Eimskip has been focusing on reefer forwarding by transporting frozen and chilled products, mainly seafood, meat, fruit and vegetables, where fluctuations in consumption are limited. Here, opportunities lie in creating new businesses and entering new markets, by growing organically and by opening up new offices either within the North Atlantic or in other market areas.

# INVESTMENTS

## INVESTMENTS IN 2015

Eimskip's strategy for external growth is to make accretive acquisitions that create synergies, strengthening the Company's performance and increasing shareholder value.

Eimskip's Board of Directors and management have spent considerable time on evaluating potential investment projects in the Company's search for opportunities to grow and to strengthen its current position in markets outside of Iceland in the North Atlantic.

In 2015, Eimskip entered into partnerships, established and invested in the following companies and infrastructure projects. It will continue to evaluate potential investment projects and is currently working on various projects.

The companies acquired will play an important role in further strengthening Eimskip's services. Synergy has followed all of the acquisitions and the companies performed in line with the Company's expectations in 2015.

### JAC. MEISNER

Eimskip strengthened its position in worldwide reefer logistics services with the acquisition of the forwarding company Jac. Meisner Internationaal Expeditiebedrijf B.V. in the Netherlands. The company was founded in 1959 and is located in the port of Rotterdam. Its main expertise lies in customs brokerage, veterinary and agricultural inspection and the receiving and checking of frozen and chilled cargo originating from all over the world for import into Europe. The acquisition strengthens services to Eimskip's customers and the customers of Jac. Meisner will also benefit from Eimskip's global network.

### JOINT VENTURE IN SHIP MANAGEMENT AND TRADING

Eimskip and the company König & Cie. Holding GmbH & Co. KG in Hamburg, Germany, established a joint venture named Eimskip & KCie GmbH & Co. KG. The new company specializes in ship management and trading. The ownership is 80% by Eimskip and 20% by König & Cie. The company will create synergy in vessel operation, including technical management, chartering, sale and purchase, new building projects, and various other ship management and investment projects. Over the years, Eimskip's aim has always been to optimize and secure the operation of its vessel fleet and with this joint alliance, Eimskip will even further strengthen its operations.

### WAREHOUSE OPERATION IN ÅRHUS

In 2015, Eimskip expanded its presence in Århus, Denmark by taking over a 21,500 square meter warehouse operation, making Eimskip the largest warehouse operator in this second-largest port in Scandinavia. The warehouse is located on the container terminal with direct access to the port. Eimskip is the third-largest carrier calling at the port of Århus, following Maersk and MSC. The main focus of the warehouse is on storage, packaging, project cargo, cradling, container freight station, distribution, and pick-and-pack services.

### COMPANIES IN NEWFOUNDLAND AND LABRADOR

In cooperation with Harbour Grace Shrimp Company Ltd., Eimskip acquired the cold storage operation of St. Anthony Cold Storage Ltd. in Newfoundland and Labrador early in 2015. The main services of the facility include the discharging of fishing vessels and storage and transportation of seafood. Eimskip has been calling at the port of St. Anthony since 2005, and with this acquisition it further strengthens its operations and services to the seafood industry in Newfoundland and Labrador, as well as towards large ongoing industrial projects in the area.

Eimskip also acquired the forwarding company Cargocan Agency Ltd., a leading forwarder in Newfoundland and Labrador, located in St. John's. The company was established in 1992 and has been a leading forwarding company for the seafood industry and for dry cargo to and from Newfoundland and Labrador.

### SEATOURS

The Company bought all the shares of Seatours (Sæferdir ehf.) and took over its operations as from the beginning of August. Seatours is a ferry-operating company located in Stykkishólmur, on Iceland's west coast. The company was founded in 1986, offering services in the bay Breidafjörður. Its ferry, Baldur, plays an important role in transportation services on the west coast. By acquiring Seatours, Eimskip is extending its ferry operations in Iceland and taking a step into seaborne tourism.

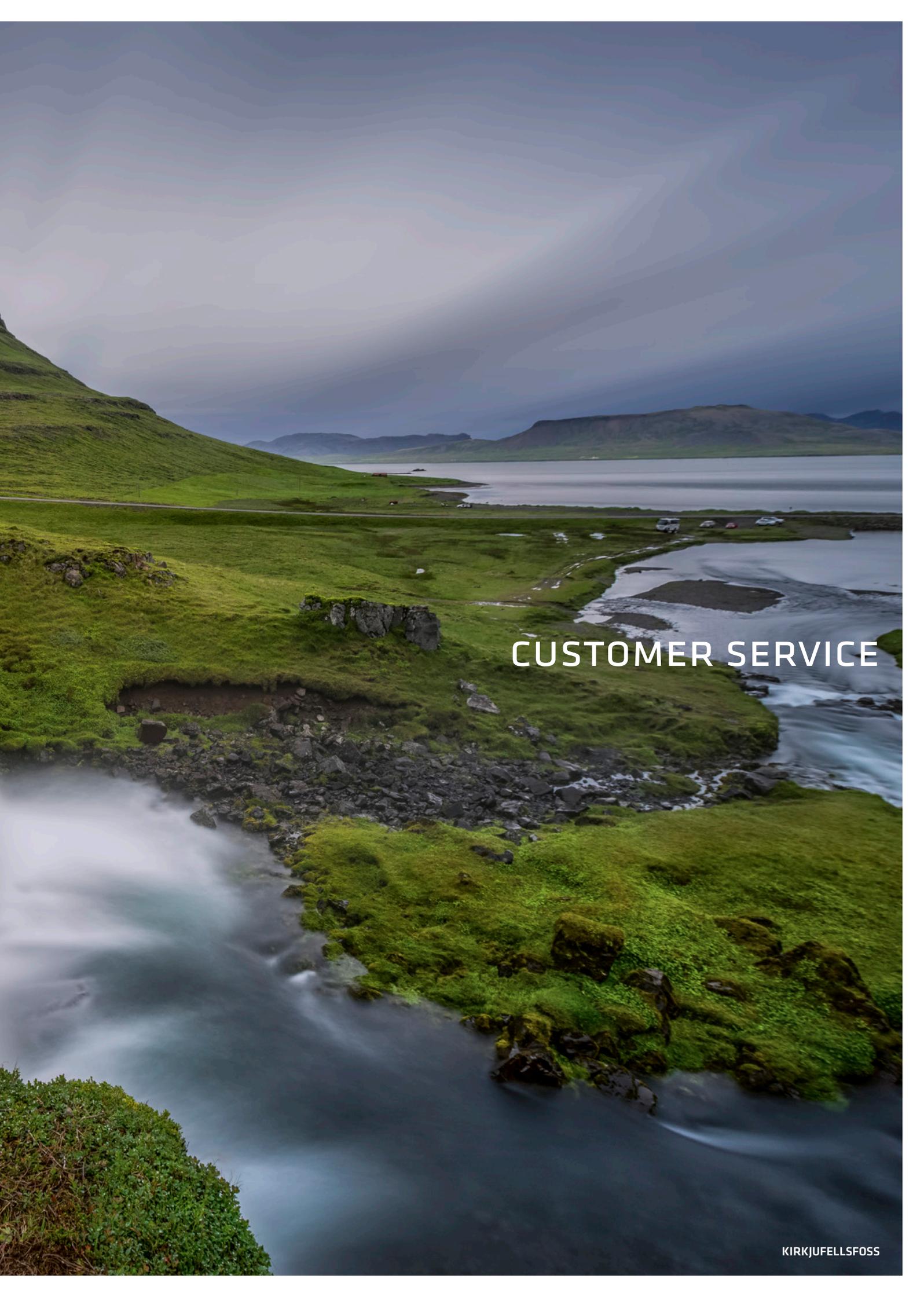
### INFRASTRUCTURE INVESTMENTS IN ICELAND

To further strengthen its operations and infrastructure, Eimskip invested in two new Gottwald harbor cranes last year, one for Reydarfjörður to handle the Alcoa terminal operation and the other for Grundartangi, where the aluminum plant of Nordurál is situated. The crane formerly in use in Reydarfjörður will be moved to the Faroe Islands. A third crane was ordered in 2015 and will be positioned in Reykjavík as activities there are growing. It will replace an older one which will be sent to the Westman Islands to serve the Yellow line. With the crane investments, the Company will be able to operate the Blue and the Yellow Lines with non-geared vessels in the future.

Furthermore, Eimskip has invested in 22,410 square meters of land at Grundartangi. The purpose of the investments in land and the new harbor crane for Grundartangi is to further secure reliability and capacity in order to be able to develop in step with current and future industries in the area.





A wide-angle landscape photograph showing a river in the foreground, flowing through a green valley. In the middle ground, a road and a parking area with several cars are visible. A large lake or reservoir is in the background, with mountains in the distance under a cloudy sky.

# CUSTOMER SERVICE

# CUSTOMER SERVICE

## SERVICE POLICY

Eimskip has always maintained a very strong focus on the services provided to customers, and employees are dedicated to work according to the Company's service policy. Under this, the Company provides total transportation services where customer needs and excellent services are the key focus, based on Eimskip's values of Achievement, Cooperation and Trust.

Nine principles have been set out as a guide for employees to achieve the service goals:

- We strive to provide excellent services
- We are reliable, professional and trustworthy
- We are honest, polite and positive
- We show initiative and seek the best solutions
- We are flexible and diplomatic in dealing with people
- We make every effort to maintain good relations with customers and colleagues
- We put ourselves in our customers' shoes and build close relationships
- We act in a positive and cheerful manner every day
- We enjoy our work

It is Eimskip's firm belief that these principles reflect the Company's service culture and how it and its employees present themselves towards the market. The fact that the service policy has become a part of the Company culture sets the course for employees, who all strive to provide the best services available.

The service policy is constantly being followed up, with special emphasis on further improvements in terms of speed and reliability. Results are monitored through regular customer satisfaction surveys, and feedback over the past years has been good.

## SERVICE POLICY

Eimskip provides total transportation services where the needs of our customers are the key focus in all our work. Our role is to provide customers and colleagues with excellent services at all times. This we do with care and pleasure, guided by Eimskip's values of Achievement, Cooperation and Trust.

## SERVICES

Eimskip has a strong position on the Icelandic market, a fact which further motivates it to be the market leader in offering excellent services. Having a broad customer base embracing a range of different needs, the Company must always come up with solutions which can serve the mass but at the same time remaining flexible and innovative as regards tailor-made solutions.

The need to provide fast and reliable international services has been the main requirement in recent years. Each and every link in the transportation chain has to work flawlessly in order for the Company's front-line employees to be able to provide outstanding services. Eimskip's recent Customer Relations Management (CRM) system further enables its employees to know customer needs. The ever-increasing pace of modern commerce demands constant adaptation to new technology and solutions to improve services further.

The ePORT, the Company's online service web, is constantly being developed, updated and improved and the latest edition was launched in February 2016. The ePORT enables customers to access invoices and necessary documents online, monitor their orders, call up a simple overview of their transport activities and manage the storage of their shipments in Eimskip's Warehouse Hotel in Reykjavík.

Eimskip's service portfolio also includes the eBOX, a simple user-friendly solution for smaller shipments from Europe and North America to Iceland. Through it, customers themselves can calculate the price of transportation door-to-door on the web and the Company's transportation system makes sure that the shipment arrives in Iceland by the first available vessel.

Use of the ePORT and eBOX has been growing in recent years.

## SAILING SCHEDULE AND SERVICES

Substantial changes were made to the Company's sailing schedule in March 2013, which increased system capacity, and in February 2014 adjustments were made to the system which had been affected by adverse weather conditions. A new sailing route, the Gray Line, was added between the Faroe Islands and Scotland to increase the flexibility of the sailing schedule and the service reliability for customers. In February 2015, the Green Line (between Iceland and North America, with a port call in Sortland in Norway) and the Red Line (connecting the coastal services in Iceland with Europe) were combined into a new Green Line with three vessels, a direct sailing route between Europe and North America with port calls in Iceland. In October 2015 the services of the Gray Line were expanded by adding another chartered 500 TEU vessel to the line to increase capacity and with new port calls in Århus in Denmark, Halmstad in Sweden and Swinoujscie in Poland.







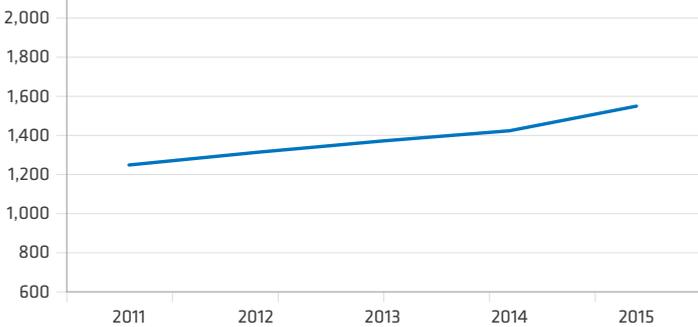
# EMPLOYEES

# EMPLOYEES

## EMPLOYEES

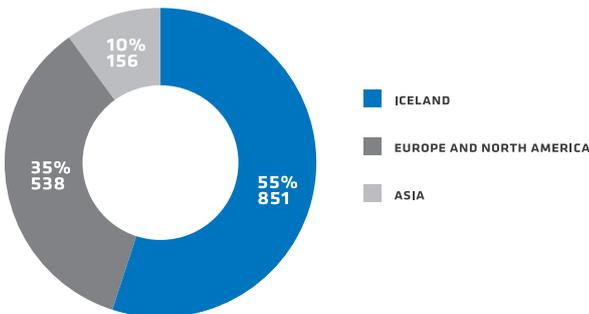
Eimskip employed an average of 1,545 people in fixed positions in 2015. The employee group is diverse, with a variety of backgrounds as regards education and experience, but everyone works concertedly with the aim of providing customers with outstanding services.

**AVERAGE NUMBER OF EMPLOYEES**



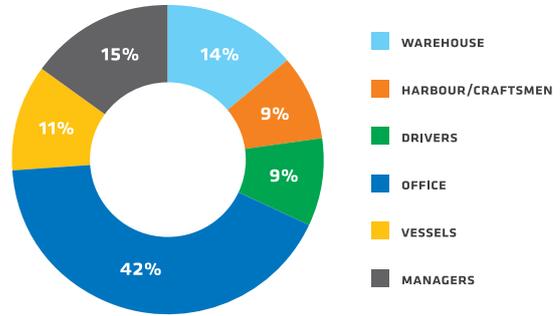
The opportunities and challenges in Eimskip's human resource management lie in maintaining the Company's strong corporate culture. At the same time it is challenging to create conditions in the global environment in which Eimskip operates to make it an attractive workplace for competent individuals with the qualifications and knowledge needed to enhance the Company's achievements further.

**GEOGRAPHICAL DISTRIBUTION  
AVERAGE NUMBER OF EMPLOYEES 2015**



One of the ways the Company's harnesses team spirit and joint goal seeking involves a project called 'The 4 Disciplines of Execution' (4DX). This has opened up opportunities for the diverse group of employees, attending to jobs of very different kind, to aim at and achieve the same final goal. Not only do they find themselves able to participate, but they are also required to make a creative contribution. The benefits include a crop of new ideas, improved communication and a good team spirit.

**EMPLOYEE SUBGROUPS 2015**



## JOB OPPORTUNITIES

Every staff recruitment is made with an emphasis on the view that it is an investment by the Company and that high quality standards should therefore be set regarding the procedure.

Eimskip makes a point of ensuring that each position is filled by a competent individual with the skills and know-how needed to achieve results for the Company. Vacancies are more frequently advertised both within and outside the Company, so as to give people in both categories the change to apply, and the Company is also making more frequent use of other tools, such as social media and apps, in searching for candidates. This has produced good results, considering how diverse the group of employees is, and has opened up new possibilities of approaching candidates.

## EDUCATION AND TRAINING

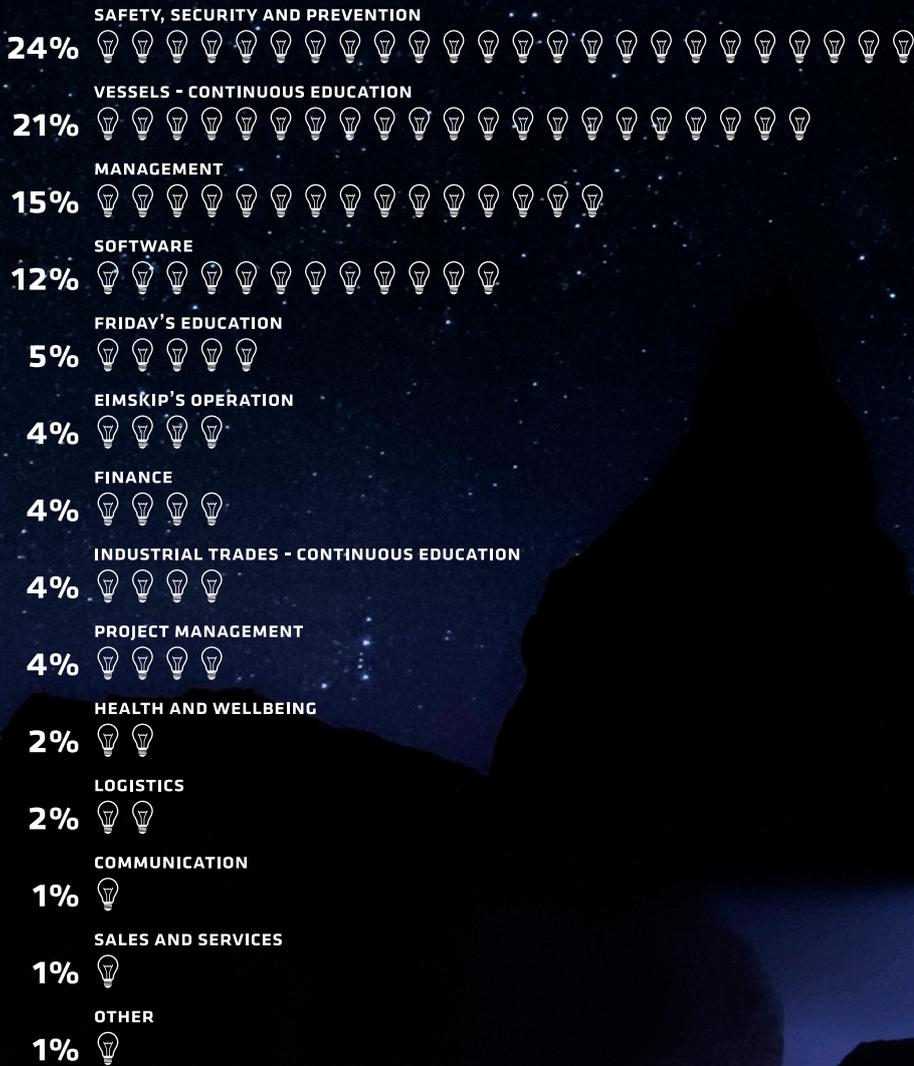
A full program of educational courses was on offer for employees during 2015, with a total of 167 events. The infographic on the right covers the topics offered in the Icelandic part of operations. The range was varied, with an increased focus on management courses for various levels of managers.

Eimskip's policy regarding education and training is aimed at enabling each and every employee to achieve the best possible results and to enhance skills and know-how in particular areas where improvement is needed. Increased focus on management courses is therefore aligned with the increased demand made of managers to be effective leaders with strong management skills and set a good example through their skills and conduct.

## HUMAN RESOURCE MANAGEMENT SYSTEM

For a full year now, the Human Resources section has had a single HR system worldwide for relevant information, instead of several dissimilar systems as used to be the case. The main challenge accompanying this change has been training on how to use the system and refining processes and methods, resulting in more focused analysis and easier access to various types of data on employees, competence, qualifications, productivity and results.

## EDUCATIONAL EVENTS BY TRAINING CATEGORY 2015





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 of imports and exports is crucial to the economy and prosperity of the region.

The Company operates an efficient and responsible transportation system in the North Atlantic and offers worldwide forwarding services. Eimskip's ambition is to be a leading transportation company in the North Atlantic.

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

Eimskip's values are Achievement, Cooperation and Trust. These are the employees' guiding principles in the Company's endeavor to preserve and protect the environment, work for a better society wherever it operates and be a role model when it comes to responsibility and trust.

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.

Eimskip 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 this spirit, it supported a variety of community projects and non-governmental organizations in 2015. When choosing the projects, the Company gave priority to enhancing safety at sea, supporting environmental projects, charities, sporting activities, culture and innovations and, last but not least, projects centered on youth and children.

The Company is especially proud of its bicycle helmet project, which began in 2004. In cooperation with Kiwanis, the Company has given all six-year-old children in Iceland bicycle helmets and safety reflectors to contribute to youth safety. During this period, Eimskip has given over 55,000 helmets to children who are now aged between 6 and 18. The project is symbolic for Eimskip's values and commitment to a better and safer society.

In 2015, Eimskip has continued aligning the Company's corporate social responsibility with its business effort. The focus of 2015 was on a reduced environmental footprint and increased employee safety.

## **ENVIRONMENTAL ISSUES AND POLICY**

### **DECLARATION ON CLIMATE ISSUES**

More than ever before, people now realize the negative impact that the use of fossil fuels has on nature. Their use has resulted in global warming, ozone-layer depletion and acid rain. For decades, the United Nations have been leading an international, consensual program to set goals for sustainable development and combat climate change. By doing so, they provide the necessary framework for all communities, large and small, to take action. A vital part of that program was the Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, otherwise known as Paris 2015, or COP21, with the aim of keeping global warming below 2°C.

For Iceland, which bases large part of its economic foundation on harvesting natural resources from the ocean in a sustainable way, the changes associated with global warming and pollution of the ocean leave all the key components of its modern economy utterly exposed, in addition to threatening the quality of life for future generations. To support global and local environmental initiatives, Eimskip signed the Reykjavík Declaration on Climate Issues in November 2015.



# CORPORATE SOCIAL RESPONSIBILITY

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The agreement includes the following main elements:

1. Reducing greenhouse gas emissions
2. Reducing waste
3. Monitoring the results of the measures and regularly publicizing information on the status of the above-mentioned issues

Eimskip will continue focusing on reduced emissions and improved waste disposal and at the same time increase the transparency of its footprint throughout the supply chain. The focus in 2016 will be on extending monitoring of emissions and waste from the supply chain by collecting electronic data from all emitting sources and streaming it automatically to a common data warehouse. Digitization of emission and waste-registration data from the supply chain will enable continuous monitoring of measures and provide more reliable information on the status.

In 1991, Eimskip became one of the first companies in Iceland to establish an environmental policy as a main driver for actions for improved environmental footprint. Since then, the challenges in this field have developed very quickly and the transportation industry, as well as others, realizes how important environmental issues are for the world today.

## ENVIRONMENTAL POLICY

Eimskip respects its environment and seeks to limit its impact on the ecosystem. Protecting the environment and environmental awareness are reflected in the Company's operations, management and day-to-day work of its employees.

Much has been accomplished since 1991 and Eimskip continues to take further steps towards improving its environmental performance and align to global and international initiatives.

### EIMSKIP HAS THE FOLLOWING ENVIRONMENTAL AIMS:

- Identify and control potential environmental risks posed by the Company's operations
- Manage the Company's operations according to applicable laws, regulations and international conventions
- Recycle waste from the Company's operations as far as practicable and endeavor to minimize, as far as possible, the creation of waste
- Improved energy efficiency of the Company's vessels
- Improved energy efficiency of the Company's fleet of trucks and other equipment using fossil fuels
- Work on savings and improving efficiency in energy consumption, i.e. electricity and heating, on the Company's premises
- Set yearly goals on environmental issues
- Provide employees and customers with regular training on environmental issues

Eimskip respects the environment and recognizes the effects that climate change could have on society and its business activities and the need for a low-carbon economy. Minimization of the environmental load from its operations focuses on achieving full clarity regarding emissions and waste from each of the emitting sources in the supply chain. To make this possible, use of data and analytics will be stepped up in 2016, giving Eimskip a better overview of its environmental footprint.

# CORPORATE SOCIAL RESPONSIBILITY

## **IDENTIFY AND CONTROL POTENTIAL ENVIRONMENTAL RISKS POSED BY THE COMPANY'S OPERATIONS**

All the Company's vessels are run according to a certified Safety Management System complying with the ISM (International Safety Management) code. This includes risk assessments with regard to environmental risks and applicable procedures to control and prevent environmental risks as far as possible. It also includes emergency procedures for each vessel and the office to ensure proper response to incidents that potentially could harm the environment.

Eimskip operates a loss prevention team. One of its tasks is to monitor and identify potential environmental risks anywhere inside the Company and its operations and to highlight them to the applicable managers and/or employees.

## **MANAGE THE COMPANY'S OPERATIONS ACCORDING TO APPLICABLE LAWS, REGULATIONS AND INTERNATIONAL CONVENTIONS**

New rules came into effect on 1 January 2015 regarding sulphur emissions from vessels in Emission Control Areas (ECA). The rules oblige shipping companies to use fuel with a sulphur content of no more than 0.1% inside these areas, a reduction from the earlier limit of 1.0%. These new rules apply to the majority of Eimskip's sailing routes.

The Icelandic emission region has been an Annex VI area since the beginning of 2015. Vessels in this area are permitted to use bunker with a maximum of 3.5% sulphur content. While in Icelandic ports and harbors, a maximum of 0.1% sulphur content is allowed. The new regulation originates from the United Nations' resolution on environmentally friendly marine shipping, implemented by the International Maritime Organization.

Eimskip's vision is to be a leading transportation company in the North Atlantic and a leader in responsibly fulfilling global environmental requirements. The new ECA regulation is intended to have positive effects on the environment, as the goal is to reduce the sulphur emissions of vessels in the ECA zones by 90%.

## **RECYCLING OF OPERATIONAL WASTE AND MINIMIZING CREATION OF WASTE**

For many years, Eimskip has categorized and recycled the majority of waste from its operations. In recent years, special focus has been set on recycling waste as far as possible, and this will continue.

According to MARPOL Annex V, all vessels are to have a garbage management plan and a garbage record book. To further improve the monitoring, recycling, and reporting, Eimskip plans to digitize the garbage log and stream the data to the environmental data warehouse in 2016. Through this, waste will become a part of the supply chain footprint calculation and analytics. This also increases the possibility of creating value from the waste. Further garbage reporting will be generated automatically and sent to applicable authorities.

## **IMPROVED ENERGY EFFICIENCY OF THE COMPANY'S VESSELS**

As a front-runner in the industry, Eimskip started to explore the use of new energy management technologies in 2005 with the intention of increasing the energy efficiency of its fleet. Energy management solutions in shipping were new at that time and the technology was in its infancy. Today, part of Eimskip's vessel fleet is equipped with energy management solutions from Marorka. Based on the positive results, Eimskip is now installing energy management solutions in more of its vessels. The Company's vessel operators' mission is to further improve the energy efficiency of the vessels year by year.

## **IMPROVED ENERGY EFFICIENCY OF FLEET, TRUCKS AND OTHER EQUIPMENT**

Eimskip owns a majority share in European Transport Services B.V., a trucking company located in the Netherlands that specializes in reefer container haulage with a fleet of 20 trucks. The majority of these are equipped with a TRS system,

an environmentally friendly transport refrigeration system where the engine of the truck provides power to the reefer container, resulting in much lower emissions than the conventional generators used to power reefer containers' refrigeration equipment.

Eimskip operates about 130 trucks in Iceland, which are connected to a monitoring system for improved driving, safety and energy efficiency. To obtain a full overview of the fleet's energy efficiency and emissions, it is planned to connect fuel-consumption data and position data to the environmental database in 2016. Accordingly, truck emission goals will be set and followed in the same manner as on the Company's vessels.

Eimskip operates mobile harbor cranes connected directly to external electrical power at two of the Company's terminals in Iceland: Reykjavík and Reydarfjörður on the east coast. They are from Gottwald and were originally designed to be able to run either on diesel engines or by being connected to an external, electrical power supply. The cranes use 1.2 MW power at 11 KV, which is similar to the requirements of a village of 500 to 700 inhabitants. Their operation is environmentally friendly since they produce no emissions when running on electrical power. By operating cranes with electricity, Eimskip reduces carbon dioxide (CO<sub>2</sub>) by 340 metric tons per year. This amounts to what a 17-hectare forest is able to bind on an annual basis. In addition, pollution from noise and dust is reduced at the terminals. Two new harbor cranes were taken into operation in 2015 and they are fitted for an external, electrical power supply.

## **SAVINGS AND IMPROVING EFFICIENCY IN ENERGY CONSUMPTION ON THE COMPANY'S PREMISES**

Most of the Company's premises and storage facilities use electricity for lighting and operation of refrigeration systems and electrical loading stations. The harbor lighting also consumes electrical power. The main focus of 2016 is to obtain a full transparency regarding electrical power consumption and its distribution between various consumption units by streaming power data into the environmental database for analytical purposes, the aim being a further reduction of energy use.

## **GOALS ON ENVIRONMENTAL ISSUES**

In 2015, Eimskip decided to take a vast step forward in improving its overview of its environmental footprint by using data analytics and connectivity solutions. These allow it to link together various categories of data collected from the entire supply chain. The intention is to provide crews and office personnel with high quality information in a user-friendly format. Utilizing the data collected by the various data sources, the solution employs inbuilt predictive analytics, data preparation and user dashboards. This supports monitoring of the footprint throughout the supply chain, including all users, and indicates where improvements are needed. Eimskip selected ARK Technology as a strategic partner to provide new technology in this field and to train the users. Data from the entire fleet is now streamed into one, Company-designed data warehouse. Other emitters, including trucks and electrical power users, will be connected to the data warehouse in 2016.

## **PROVIDE EMPLOYEES AND CUSTOMERS WITH REGULAR TRAINING ON ENVIRONMENTAL ISSUES**

Training crew members has been a crucial part of implementing the energy management solutions on the Company's vessels and has resulted in a strong teamwork with goals for each week of the year. Specific training sessions have been carried out on the vessels in using a Ship Energy Efficiency Management Plan (SEEMP) as a tool for efficiency improvement, in using the onboard energy management system and in working with fuel changeovers when sailing into ECA zones. The focus in 2016 is to continue training employees in energy management and in improved handling of waste.





## RISK MANAGEMENT

Risk management is the 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 in relation to financial processes is designed to control 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 Company's risk management policy is aimed at minimizing potential negative effects on operations and earnings from marketing, operational and financial activities and to limit risks to acceptable levels.

The Board of Directors regularly communicates with the CEO regarding the identification of, description of 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 strategy. 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.

## RISK FACTORS

Detailed information about risk factors, presented as of the date of the Company's Prospectus, 22 October 2012, can be found in Chapter 1 of the Registration Document, which is a part of the Prospectus. The Prospectus is accessible on [www.eimskip.is](http://www.eimskip.is).

The risk factors and uncertainties described in the following text are not the only risks that the Company as a whole faces; nor are they listed in order of priority with regard to significance or likelihood of occurrence.

### MARKET RISK

Demand for transportation services has historically been highly cyclical and closely correlated with global economic activity. Eimskip is thus exposed to a possible economic downturn or recession, either globally or in one or more of the Company's main markets. The Company is also sensitive to foreign exchange fluctuations and changes in its competitive position.

# RISK MANAGEMENT AND RISK FACTORS

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## OPERATIONAL RISK

Eimskip's operations are dependent upon many factors, e.g. access to terminals, IT systems, operation and ownership of vessels, supply of and demand for fuel, international and EU regulations on lower sulphur emissions, inflation, the reputation of the Company and its ability to retain key personnel and customer contracts. Further, refugees and stowaways and incidents involving significant damage, loss or environmental pollution are a risk factor to the Company. Changes in the legislative, political, governmental and economic framework may have a material impact on the Company's business. The Company is dependent on various licenses relating to its operations and is subject to contractual risk in relation to its obligations to fulfill various provisions of its contracts.

## FINANCIAL RISK

Eimskip is exposed to financial risk factors, including currency risk, risk related to availability of funding, interest rate risk, liquidity risk, credit risk, tax risk, fuel price risk, risk related to the financial reorganization of A1988 hf. and risk in relation to potential amendments to International Financial Reporting Standards (IFRS).

Some of the financial risk factors are addressed as follows.

## CURRENCY RISK

Eimskip is exposed to currency risk on sales, expenses and borrowings that are denominated in currencies other than the functional currencies of the Company and its entities. The majority of the Company's revenue and assets, and of its obligations and interest-bearing debt, are denominated in currencies other than the ISK. The subsidiaries use the local currency where they are based, except in Iceland, where the functional currency is the EUR.

As can be seen from the graphs on the right, the revenue and expenses of Eimskip provide, to a certain degree, a natural currency hedge.

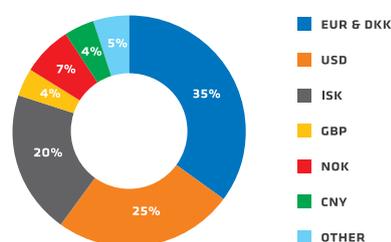
The Company believes that the natural currency balance of its operations

provides acceptable hedging and does not generally invest in any external hedging instruments, such as derivatives. However, when planning for large investments in a non-EUR currency, due consideration is given to whether hedging is prudent. Decisions on this are made on a case-by-case basis.

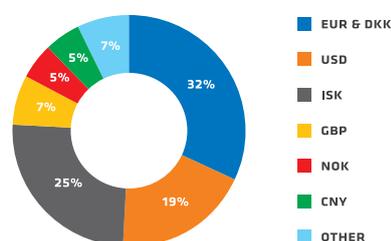
Assets and liabilities in the balance sheet are mostly denominated in EUR or the relevant operating currency of the entities. The mismatch of other non-operating currencies on the balance sheet is mainly related to two currencies, the ISK and the USD, as is shown in a table under note 18 in the Consolidated Financial Statements.

## ACCESS TO CREDIT RISK

### REVENUE 2015 BY CURRENCY



### EXPENSES 2015 BY CURRENCY



# RISK MANAGEMENT AND RISK FACTORS

Eimskip is exposed to risks related to the availability of funding. The Company is, to some extent, dependent on access to sufficient funding at acceptable terms and may not be able to secure new sources of liquidity or funding, should projected or actual liquidity fall below the levels it requires. These factors could also impact the ability of Eimskip's shareholders to provide it with liquidity and there can be no assurance that the Company could obtain additional shareholder funding. To manage this risk factor the Company seeks long-term borrowings where applicable, maintains a healthy current ratio and produces internal short-term cash flow reports on a regular basis.

## **INTEREST RATE RISK**

Interest rate risk is the risk borne by an interest-bearing liability, such as a loan or a bond, due to variability of interest rates. Eimskip's interest rate risk exposure is due to its debt and lease liabilities, which are mainly denominated in EUR. The Company's long-term debt is primarily based on floating interest rates and consequently Eimskip is exposed to fluctuations in the general level of interest rates. However, the Company's current funding structure limits to some extent risk against an increase in interest rates. The Company does not currently use any interest rate swaps or options to hedge its exposure. Its position is, however, carefully monitored and reviewed in line with interest rate developments on financial markets. For further information on Eimskip's nominal interest rates, reference is made to note 16 in the Consolidated Financial Statements.

## **LIQUIDITY RISK**

Eimskip has liabilities and obligations which arise over time and the Company may not have the liquidity to meet its liabilities as they fall due. Eimskip's approach to managing liquidity, i.e. cash on hand or short-term marketable securities, 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 the Company's reputation. For further information on liquidity status, reference is made to note 18 in the Consolidated Financial Statements.

## **CREDIT RISK**

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

Eimskip's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, no single customer accounts for more than 5% of the Company's revenue.

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

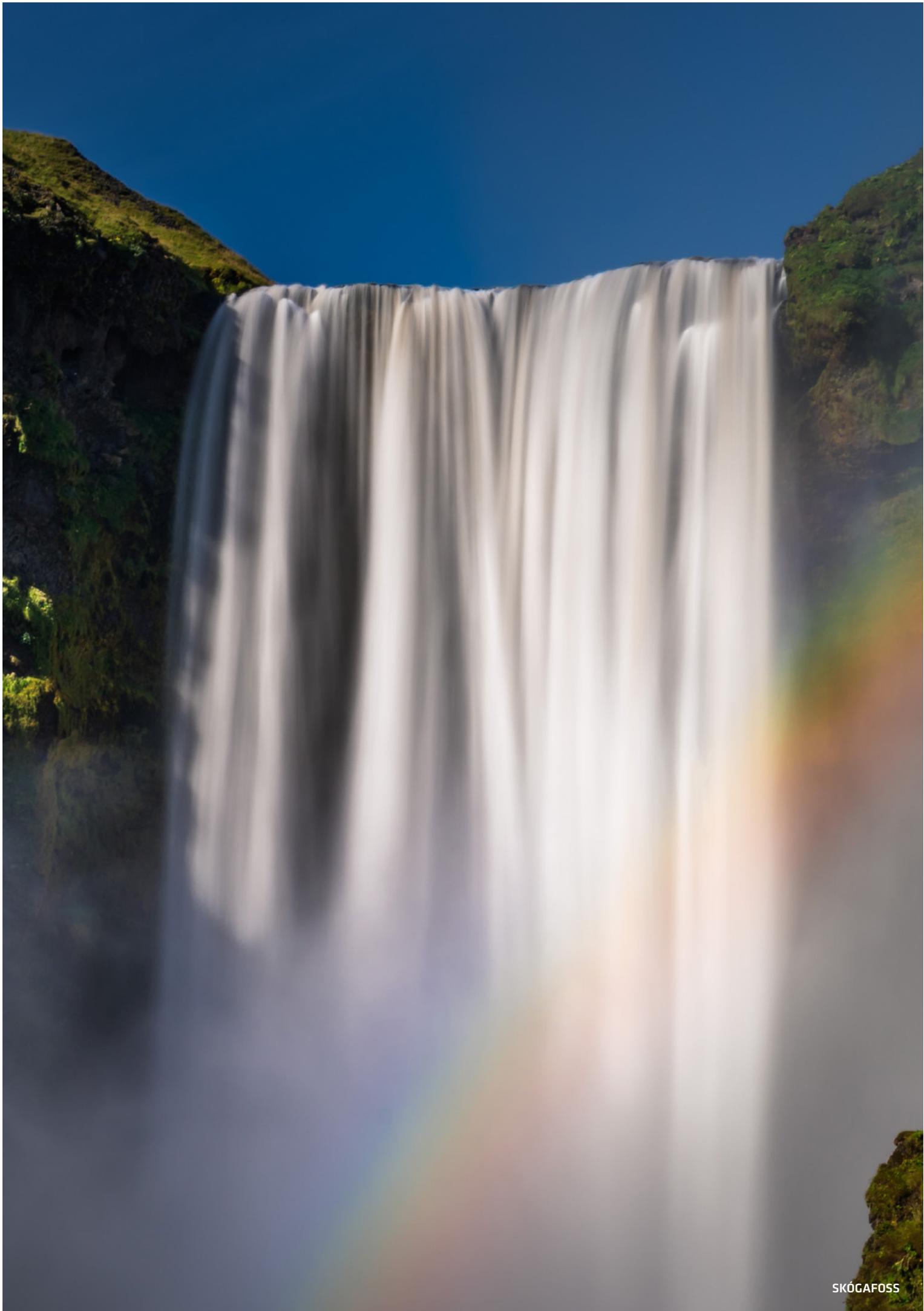
In spite of these precautionary measures, a general downturn in financial markets and economic activity may result in a higher volume of late payments and outstanding receivables. Eimskip's sales will depend on the financial position of its counterparties and there can be no guarantee that the financial position of the Company's customers and other contract parties will be sufficient to honor their obligations under their contracts with the Company. Even though the Company seeks to recover all outstanding receivables, the amounts of write-offs may increase. Trade and other receivables of Eimskip amounted to EUR 83.9 million at the end of 2015, which represents 16.8% of the Company's revenue.

## **FUEL PRICE RISK**

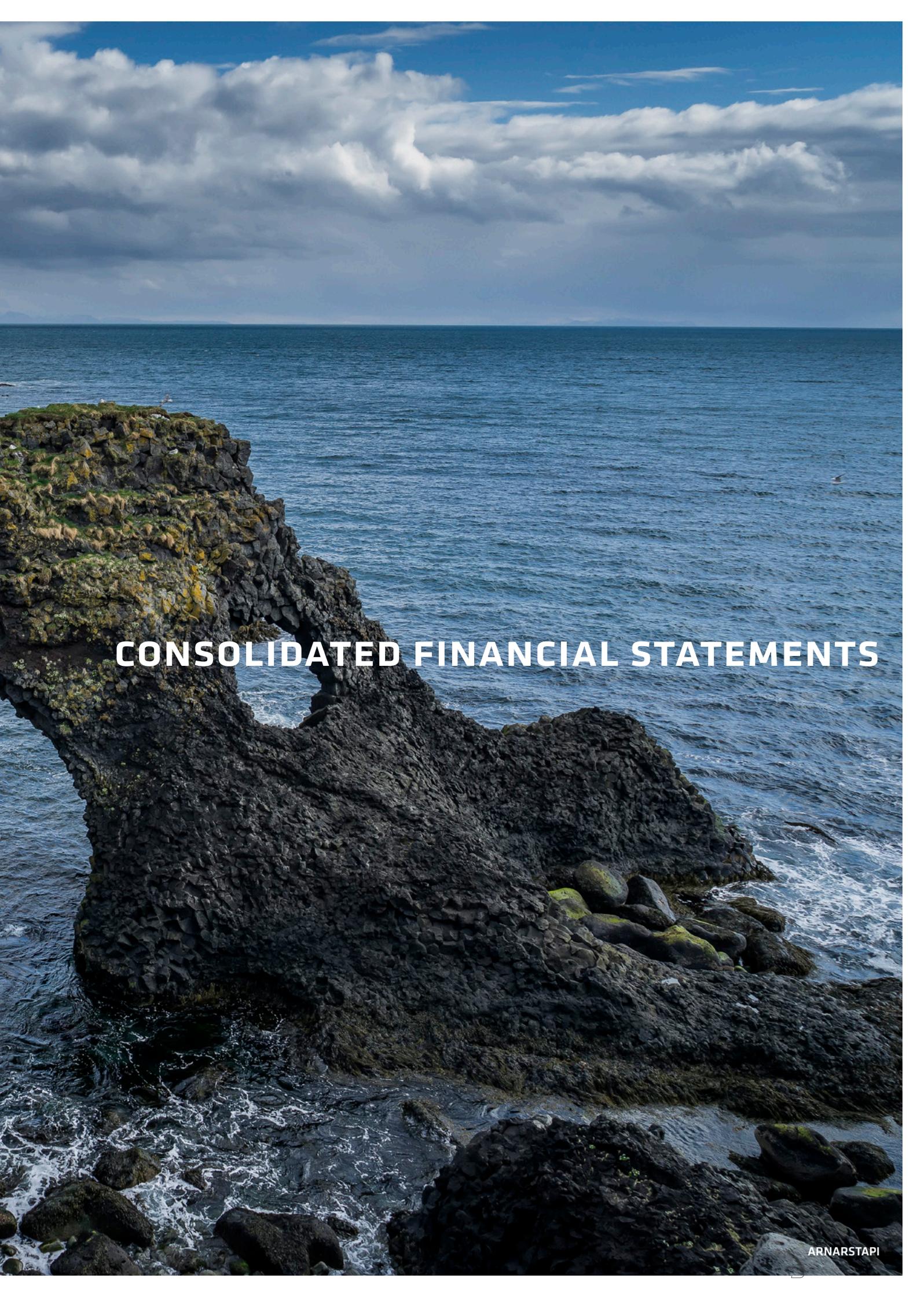
The supply and demand of fuel is unpredictable and price fluctuations are based on events which are outside of Eimskip's control. Therefore, the Company cannot accurately predict the future availability or price of fuel. A number of issues, including geopolitical developments, supply of and demand for oil, actions by the Organization of Petroleum Exporting Countries (OPEC) and other oil producers, war and unrest in oil-producing countries and regions, regional production patterns, environmental concerns and other unpredictable events can affect the availability and price of fuel and may result in future fuel supply shortages and price increases.

Fuel costs accounted for 6.7% of Eimskip's expenses in 2015. The Company is exposed to fluctuations in the price of crude oil and oil products. In order to minimize its exposure to fluctuations in oil prices, the Company adds a surcharge to its prices, commonly referred to as the Bunker Adjustment Factor (BAF) and the Bunker Adjustment Trucking (BAT) depending on the oil prices at the time of transport. The BAF, BAT and other pricing adjustments compensate for approximately 80% of Eimskip's risk relating to fluctuations in oil prices. However, significant increases in oil prices could lead to downward pressure on the Company's tariffs from its customers.

As of 1 January 2015, new rules have applied to sulphur emissions from vessels in Emission Control Areas (ECA). The rules oblige shipping companies to use fuel with a sulphur content no higher than 0.1%, down from the earlier limit of 1.0%. These new rules apply to the majority of Eimskip's sailing routes. In relation to the new rules, the Company has implemented a new surcharge, LSS (Low Sulphur Surcharge) in order to hedge its operations against increased fuel costs.







# CONSOLIDATED FINANCIAL STATEMENTS

# ENDORSEMENT AND STATEMENT BY THE BOARD OF DIRECTORS AND THE CEO

## OPERATIONS AND SIGNIFICANT MATTERS IN 2015

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 26 March 2015 a dividend payment to shareholders of ISK 5.00 per share. The total dividend payment amounted to ISK 933.2 million or EUR 6.3 million. The payment date was 21 April 2015.

On 31 August 2015 the Company cancelled its building project of 875 teu container vessel in China. Due to the cancellation the Company received on 13 October 2015 a cash payment based on a bank guarantee of USD 16.1 million, equal to EUR 14.1 million. Eimskip had capitalized EUR 12.1 million for the vessel construction. The difference between the refund and capitalized amount is EUR 2.0 million and is recorded as operating revenue in the Consolidated Income Statement.

During the year the Company acquired the companies Jac. Meisner Internationaal Expeditiebedrijf B.V., Cargocan Agency Ltd. and Sæferdir ehf., the cold storage operation of St. Anthony Cold Storage Ltd. and established the joint venture Eimskip & KCie GmbH & Co. KG. The companies are included in the Consolidated Financial Statements and have an immaterial effect.

Net earnings for the year 2015 amounted to EUR 17.8 million (2014: EUR 13.6 million) according to the Consolidated Income Statement. Total equity at 31 December 2015 amounted to EUR 228.1 million (2014: EUR 216.5 million) according to the Statement of Financial Position.

The Board of Directors proposes a dividend payment to shareholders in 2016 in the amount of ISK 6.50 per share. The proposed dividend payment is ISK 1,213.2 million, or EUR 8.5 million, which represents 47.9% of net earnings for the year 2015.

## 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, general securities regulations and the Icelandic Corporate Governance Guidelines issued by the Iceland Chamber of Commerce, Nasdaq Iceland and the Confederation of Icelandic Employers. 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. Further information is provided in the Corporate Governance Statement which is an appendix to these financial statements.

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 Company complies with article 63 of the laws of the Icelandic Company's Act whereas the Company's Board of Directors currently consists of three males and two females.

## 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 2015 which is equal to 6.68% of issued shares. 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](http://www.eimskip.is/investors).

The number of shareholders at year-end 2015 was 955 which was a decrease of 146 from the beginning of year.

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

SHAREHOLDER:	2015		2014	
	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	28,435,070	15.24%	29,135,070	15.61%
3 Yucaipa American Alliance (Parallel), Fund II LP*	20,095,970	10.77%	20,095,970	10.77%
4 Lífeyrissjóður starfsmanna ríkisins A-deild**	14,070,000	7.54%	15,745,000	8.44%
5 Gildi - lífeyrissjóður	8,085,462	4.33%	1,132,870	4.11%
6 J.P. Morgan Clearing Corporation	7,672,360	4.11%	7,672,360	3.56%
7 Sameinadi lífeyrissjóðurinn	5,611,062	3.01%	5,835,062	3.54%
8 Lífeyrissjóður starfsmanna ríkisins B-deild**	5,125,500	2.75%	6,615,250	3.25%
9 Stapi lífeyrissjóður	5,118,769	2.74%	6,071,324	3.13%
10 Kvikabanki hf.	4,083,992	2.19%	3,652,581	1.96%
11 Söfnunarsjóður lífeyrisréttinda	3,252,823	1.74%	2,852,823	1.60%
12 Íslandsbanki hf.	2,942,545	1.58%	1,715,000	1.53%
Other shareholders	51,641,647	27.67%	55,611,890	26.16%
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 Alliance funds with total shareholding of 27.1%

\*\*) Lífeyrissjóður starfsmanna ríkisins with total shareholding of 10.3%

## 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 2015, its assets, liabilities and consolidated financial position as at 31 December 2015 and its consolidated cash flows for the year 2015.

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 2015 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, 25 February 2016

### BOARD OF DIRECTORS

Richard Winston Mark d'Abo  
Chairman

Víglundur Thorsteinsson

Hrund Rudolfsdóttir

Helga Melkorka Óttarsdóttir

Lárus L. Blöndal

### CEO

Gylfi Sigfússon

Amounts are in thousands of EUR

# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Consolidated Financial Statements of Eimskipafélag Íslands hf., which comprise the Consolidated Statement of Financial Position as at 31 December 2015, the consolidated income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## THE BOARD OF DIRECTORS' AND THE CEO'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors and the CEO are responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU and additional Icelandic disclosure requirements for financial statements of listed companies 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.

## AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements.

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

## OPINION

In our opinion, the Consolidated Financial Statements give a true and fair view of the consolidated financial position of Eimskipafélag Íslands hf. as at 31 December 2015, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and additional Icelandic disclosure requirements for financial statements of listed companies.

## REPORT ON THE BOARD OF DIRECTORS REPORT

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.

Reykjavík, 25 February 2016

**KPMG EHF.**

Ólafur Már Ólafsson

Sæmundur Valdimarsson

# CONSOLIDATED INCOME STATEMENT FOR THE YEAR 2015

	NOTES	2015	2014
<b>REVENUE</b>			
Operating revenue .....	4	499,581	451,555
<b>EXPENSES</b>			
Operating expenses .....	4	358,325	331,544
Salaries and related expenses .....	5	96,059	81,469
		<u>454,384</u>	<u>413,013</u>
<b>Operating profit, EBITDA</b> .....		45,197	38,542
Depreciation and amortization .....	8,9	( 24,729)	( 23,195)
<b>Results from operating activities, EBIT</b> .....		20,468	15,347
Finance income .....		686	881
Finance expense .....	(	3,788)	( 3,075)
Net foreign currency exchange gain .....		3,521	2,785
Net finance income .....	6	419	591
Share of earnings of associated companies .....	11	331	229
<b>Net earnings before income tax</b> .....		21,218	16,167
Income tax .....	7	( 3,416)	( 2,560)
<b>Net earnings for the year</b> .....		<u>17,802</u>	<u>13,607</u>
<b>NET EARNINGS FOR THE YEAR ATTRIBUTABLE TO:</b>			
Equity holders of the Company .....		17,343	13,477
Non-controlling interest .....		459	130
		<u>17,802</u>	<u>13,607</u>
<b>EARNINGS PER SHARE</b>			
Basic and diluted earnings per share (EUR per share) .....	15	0.0929	0.0722

Amounts are in thousands of EUR

The notes on pages 76 to 95 are an integral part of these Consolidated Financial Statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR 2015

	NOTES	2015	2014
Net earnings for the year .....		17,802	13,607
<b>OTHER COMPREHENSIVE INCOME</b>			
Items that may subsequently be reclassified to the income statement			
Foreign currency translation difference of foreign operations .....		127	192
Total comprehensive income for the year .....		17,929	13,799
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:</b>			
Equity holders of the Company .....		17,384	13,505
Non-controlling interest .....		545	294
		17,929	13,799

*Amounts are in thousands of EUR  
The notes on pages 76 to 95 are an integral part of these Consolidated Financial Statements.*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	NOTES	2015	2014
<b>ASSETS</b>			
Property, vessels and equipment . . . . .	8	198,312	185,384
Intangible assets . . . . .	9,10	26,209	19,383
Investment in associated companies . . . . .	11	2,609	2,348
Unlisted shares . . . . .		127	90
Deferred tax assets . . . . .	12	<u>6,023</u>	<u>7,073</u>
Total non-current assets		<u>233,280</u>	<u>214,278</u>
Inventories . . . . .		1,983	2,563
Trade and other receivables . . . . .	13,18	83,911	75,660
Cash and cash equivalents . . . . .		<u>35,983</u>	<u>39,539</u>
Total current assets		<u>121,877</u>	<u>117,762</u>
Total assets		<u>355,157</u>	<u>332,040</u>
<b>EQUITY</b>			
Share capital . . . . .		1,165	1,165
Share premium . . . . .		154,726	154,726
Translation reserve . . . . .		( 2,289)	( 2,330)
Retained earnings . . . . .		<u>70,781</u>	<u>59,729</u>
Total equity attributable to equity holders of the parent company	14	224,383	213,290
Non-controlling interest . . . . .		<u>3,741</u>	<u>3,182</u>
Total equity		<u>228,124</u>	<u>216,472</u>
<b>LIABILITIES</b>			
Loans and borrowings . . . . .	16	54,999	49,578
Deferred tax liability . . . . .	12	<u>551</u>	<u>326</u>
Total non-current liabilities		<u>55,550</u>	<u>49,904</u>
Loans and borrowings . . . . .	16	16,402	14,854
Trade and other payables . . . . .	17	<u>55,081</u>	<u>50,810</u>
Total current liabilities		<u>71,483</u>	<u>65,664</u>
Total liabilities		<u>127,033</u>	<u>115,568</u>
Total equity and liabilities		<u>355,157</u>	<u>332,040</u>

Amounts are in thousands of EUR

The notes on pages 76 to 95 are an integral part of these Consolidated Financial Statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

## ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

	SHARE CAPITAL	SHARE PREMIUM	TRANSLATION RESERVE	RETAINED EARNINGS	TOTAL	NON CONTROLLING INTEREST	TOTAL EQUITY
<b>CHANGES IN EQUITY 2014</b>							
Equity at 1 January 2014	1,211	154,680	( 2,358)	49,296	202,829	2,942	205,771
Treasury shares received	( 46)	46			0		0
Reversal of prior year dividend of treasury shares received				81	81		81
Dividend paid (0.0167 EUR per share)				( 3,125)	( 3,125)		( 3,125)
Other changes in non-controlling interest					0	( 54)	( 54)
Total comprehensive income for the year			28	13,477	13,505	294	13,799
Equity at 31 December 2014	<u>1,165</u>	<u>154,726</u>	<u>( 2,330)</u>	<u>59,729</u>	<u>213,290</u>	<u>3,182</u>	<u>216,472</u>
<b>CHANGES IN EQUITY 2015</b>							
Equity at 1 January 2015	1,165	154,726	( 2,330)	59,729	213,290	3,182	216,472
Dividend paid (0.0337 EUR per share)				( 6,291)	( 6,291)		( 6,291)
Other 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	<u>1,165</u>	<u>154,726</u>	<u>( 2,289)</u>	<u>70,781</u>	<u>224,383</u>	<u>3,741</u>	<u>228,124</u>

*Amounts are in thousands of EUR  
The notes on pages 76 to 95 are an integral part of these Consolidated Financial Statements.*

# CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	NOTES	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net earnings for the year		17,802	13,607
Adjustments for:			
Depreciation and amortization	8,9	24,729	23,195
Net finance income	6	( 419)	( 591)
Share of earnings of associated companies	11	( 331)	( 229)
Change in deferred taxes	7,12	1,246	949
Other changes		( 3,360)	( 475)
		<u>39,667</u>	<u>36,456</u>
Changes in current assets and liabilities:			
Inventories, change		634	157
Receivables, change		( 3,815)	( 4,813)
Payables, change		4,914	2,570
Change in current assets and liabilities		<u>1,733</u>	<u>( 2,086)</u>
Interest paid		( 3,684)	( 3,162)
Interest received		506	919
Taxes paid		( 865)	( 524)
Net cash from operating activities		<u>37,357</u>	<u>31,603</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Acquisition of property, vessels and equipment	8,9	( 40,940)	( 17,174)
Acquisition of intangible assets		( 3,956)	( 1,439)
Proceeds from the sale of property, vessels and equipment		16,539	1,050
Investment in subsidiaries net of cash acquired		( 7,011)	0
Dividend received		162	0
Investment in associated company	11	0	( 770)
Unlisted shares, change		0	22
Net cash used in investing activities		<u>( 35,206)</u>	<u>( 18,311)</u>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>			
Dividend paid		( 6,291)	( 3,125)
Changes in non-controlling interest		14	( 54)
Proceeds from non-current loans and borrowings		19,824	10,601
Repayment of non-current loans and borrowings		( 18,720)	( 7,994)
Net cash used in financing activities		<u>( 5,173)</u>	<u>( 572)</u>
Changes in cash and cash equivalents		( 3,022)	12,720
Cash and cash equivalents at the beginning of the year		39,539	26,370
Effects of exchange rate fluctuations on cash held		( 534)	449
<b>Cash and cash equivalents at year-end</b>		<u>35,983</u>	<u>39,539</u>
<b>INVESTING AND FINANCING ACTIVITIES NOT AFFECTING CASH FLOWS</b>			
Aquisition of property, vessels, equipment and intangible assets	8,9	( 3,363)	( 1,849)
Proceeds from non-current loans and borrowings		3,363	1,849

Amounts are in thousands of EUR

The notes on pages 76 to 95 are an integral part of these Consolidated Financial Statements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<b>GENERAL PRESENTATION</b>		<b>PAGE</b>
1	Reporting entity .....	76
2	Basis of accounting .....	76
3	Measurement of fair values .....	76
24	Significant accounting policies .....	91
<b>NOTES TO THE CONSOLIDATED INCOME STATEMENT</b>		
4	Segment reporting .....	76
5	Salaries and related expenses .....	78
6	Finance income and expense .....	78
7	Income tax .....	78
<b>NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>		
8	Property, vessels and equipment .....	79
9	Intangible assets .....	80
10	Investment in subsidiaries .....	81
11	Investment in associated companies .....	81
12	Deferred tax assets and liabilities .....	82
13	Trade and other receivables .....	82
14	Capital and reserves .....	83
15	Earnings per share .....	83
16	Loans and borrowings .....	84
17	Trade and other payables .....	84
18	Financial risk management .....	85
<b>OTHER INFORMATION</b>		
19	Commitments .....	89
20	Related parties .....	89
21	Group entities .....	90
22	Other matters .....	90
23	Subsequent events .....	90

# 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 2015 comprise the Company and its subsidiaries (together referred to as "Eimskip" or the "Group") and Eimskip's interest in associated companies. 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. The financial statements were approved and authorized for issue by the Company's Board of Directors on 25 February 2016.

### 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 amount recognized in the financial statements are described in the following notes:

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. These fair values are measured for disclosure purposes.

## 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

FOR THE YEAR 2015	LINER SERVICES	FORWARDING SERVICES	CONSOLIDATED
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)
<b>EBITDA</b>	35,826	9,371	45,197
Depreciation and amortization	( 23,219)	( 1,510)	( 24,729)
<b>EBIT</b>	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
<b>FOR THE YEAR 2014</b>			
Revenue, external	330,588	120,967	451,555
Inter-segment revenue	28,961	32,936	61,897
Total	359,549	153,903	513,452
Expenses, external	( 293,886)	( 119,127)	( 413,013)
Inter-segment expense	( 32,936)	( 28,961)	( 61,897)
<b>EBITDA</b>	32,727	5,815	38,542
Depreciation and amortization	( 21,899)	( 1,296)	( 23,195)
<b>EBIT</b>	10,828	4,519	15,347
Net finance income	358	233	591
Share of earnings of associated companies	212	17	229
Income tax	( 710)	( 1,850)	( 2,560)
Net earnings for the year	10,688	2,919	13,607
Segment assets	278,360	53,680	332,040
Segment liabilities	90,705	24,863	115,568
Capital expenditure	19,632	830	20,462

### GEOGRAPHICAL SEGMENTS

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

FOR THE YEAR 2015	NORTH ATLANTIC	OTHER TERRITORIES	CONSOLIDATED
Revenue, external	446,977	52,604	499,581
Segment assets	335,418	19,739	355,157
Capital expenditure	48,259	0	48,259
<b>FOR THE YEAR 2014</b>			
Revenue, external	395,995	55,560	451,555
Segment assets	311,345	20,695	332,040
Capital expenditure	20,449	13	20,462

Amounts are in thousands of EUR  
Notes to the Consolidated Financial Statements 2015

# NOTES

## 5. SALARIES AND RELATED EXPENSES

Salaries and related expenses are specified as follows:	<b>2015</b>	<b>2014</b>
Salaries .....	78,753	67,255
Defined pension contribution plan .....	6,409	5,569
Other related expenses .....	10,897	8,645
Salaries and related expenses .....	<u>96,059</u>	<u>81,469</u>
Average number of full-time equivalents during the year .....	1,512	1,397
Average number of employees .....	1,545	1,420
Number of employees at year-end .....	1,576	1,431

## 6. FINANCE INCOME AND EXPENSE

Finance income is specified as follows:	<b>2015</b>	<b>2014</b>
Interest income .....	631	832
Dividend received .....	55	49
Finance income .....	<u>686</u>	<u>881</u>
Finance expense is specified as follows:		
Interest on long-term loans .....	( 2,970)	( 2,329)
Other finance expense .....	( 818)	( 746)
Finance expense .....	<u>( 3,788)</u>	<u>( 3,075)</u>
Net foreign currency exchange gain .....	3,521	2,785
Net finance income .....	<u>419</u>	<u>591</u>

## 7. INCOME TAX

### (i) INCOME TAX RECOGNIZED IN THE INCOME STATEMENT

<b>CURRENT TAX EXPENSE</b>	<b>2015</b>	<b>2014</b>
Current period .....	<u>2,188</u>	<u>1,488</u>
<b>DEFERRED TAX</b>		
Origination and reversal of temporary differences .....	1,307	1,018
Other changes .....	( 79)	54
Total income tax .....	<u>1,228</u>	<u>1,072</u>
Total income tax .....	<u>3,416</u>	<u>2,560</u>

### (ii) RECONCILIATION OF EFFECTIVE INCOME TAX RATE

Net earnings before income tax .....		<b>2015</b>		<b>2014</b>
		<u>21,218</u>		<u>16,167</u>
	<b>2015</b>		<b>2014</b>	
Income tax using the Company's domestic tax rate .....	20.0%	4,244	20.0%	3,233
Effect of tax rates in foreign jurisdictions .....	( 5.6%)	( 1,179)	( 11.8%)	( 1,914)
Tax losses not recognized as deferred tax asset .....	0.0%	0	6.4%	1,034
Under / over provided in previous years .....	0.0%	1	0.3%	56
Other changes .....	1.6%	350	0.9%	151
Effective income tax rate .....	<u>16.1%</u>	<u>3,416</u>	<u>15.8%</u>	<u>2,560</u>

# NOTES

## 8. PROPERTY, VESSELS AND EQUIPMENT

Property, vessels and equipment are specified as follow:

<b>COST</b>	<b>LAND AND BUILDINGS</b>	<b>VESSELS</b>	<b>VESSELS UNDER CONSTRUCTION</b>	<b>CONTAINERS AND EQUIPMENT</b>	<b>TOTAL</b>
Balance at 1 January 2014	70,626	97,255	23,979	70,958	262,818
Reclassification of assets	25	16,582	( 16,582)	( 16)	9
Additions	356	1,933	4,013	12,721	19,023
Disposals	( 55)	0	0	( 2,370)	( 2,425)
Currency adjustments	( 49)	795	0	323	1,069
Balance at 31 December 2014	<u>70,903</u>	<u>116,565</u>	<u>11,410</u>	<u>81,616</u>	<u>280,494</u>
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	<u>72,095</u>	<u>129,272</u>	<u>0</u>	<u>110,824</u>	<u>312,191</u>
<b>DEPRECIATION</b>					
Balance at 1 January 2014	12,348	36,076	0	27,923	76,347
Disposals	( 55)	0	0	( 1,841)	( 1,896)
Depreciation	3,036	7,810	0	9,928	20,774
Currency adjustments	( 114)	( 168)	0	167	( 115)
Balance at 31 December 2014	<u>15,215</u>	<u>43,718</u>	<u>0</u>	<u>36,177</u>	<u>95,110</u>
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	<u>17,563</u>	<u>52,586</u>	<u>0</u>	<u>43,730</u>	<u>113,879</u>
<b>CARRYING AMOUNTS</b>					
At 1 January 2014	<u>58,278</u>	<u>61,179</u>	<u>23,979</u>	<u>43,035</u>	<u>186,471</u>
At 31 December 2014	<u>55,688</u>	<u>72,847</u>	<u>11,410</u>	<u>45,439</u>	<u>185,384</u>
At 31 December 2015	<u>54,532</u>	<u>76,686</u>	<u>0</u>	<u>67,094</u>	<u>198,312</u>

On 31 August 2015 the Company cancelled its building project of 875 teus container vessel in China. Due to the cancellation the Company received on 13 October 2015 a cash payment based on a bank guarantee of USD 16.1 million, equal to EUR 14.1 million. Eimskip had capitalized EUR 12.1 million for the vessel construction. The difference between the refund and capitalized amount is EUR 2.0 million and is recorded as operating revenue in the Consolidated Income Statement.

### FINANCE LEASES

As part of Eimskip'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 2015 amounted to EUR 7.4 million (2014: EUR 7.2 million). The commitment according to the lease agreements at the same time amounted to EUR 5.6 million (2014: EUR 5.6 million). The assets held under finance leases are all equipment.

Some uncertainty prevailed regarding the Eimskip's non ISK finance lease agreements that were transferred from A1988 hf. in relation to the composition agreement in the year 2009. The matter has been closed with no effect on the financial results.

# NOTES

## 8. PROPERTY, VESSELS AND EQUIPMENT, CONTINUED

### PLEDGES

Property, vessels and equipment with a carrying amount of EUR 73.2 million (2014: EUR 75.4 million) have been pledged as security for loans amounting to EUR 71.4 million (2014: EUR 64.4 million) at year-end.

### BORROWING COSTS

Borrowing costs amounting to EUR 0.2 million with an interest rate of 3.51% have been capitalized due to vessels under construction (2014: EUR 0.6 million).

## 9. INTANGIBLE ASSETS

Intangible assets and amortization are specified as follows:

	GOODWILL	BRAND NAME	SOFTWARE	MARKET AND CUSTOMER RELATED	TOTAL
<b>COST</b>					
Balance at 1 January 2014	0	14,003	13,546	3,466	31,015
Reclassification of assets	0	0	(9)	0	(9)
Additions	0	0	1,439	0	1,439
Currency adjustments	0	0	30	0	30
Balance at 31 December 2014	0	14,003	15,006	3,466	32,475
Balance at 1 January 2015	0	14,003	15,006	3,466	32,475
Reclassification of assets	0	0	14	0	14
Purchase price allocation	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
<b>AMORTIZATION</b>					
Balance at 1 January 2014	0	0	9,563	1,080	10,643
Amortization	0	0	2,074	347	2,421
Currency adjustments	0	0	28	0	28
Balance at 31 December 2014	0	0	11,665	1,427	13,092
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
<b>CARRYING AMOUNTS</b>					
At 1 January 2014	0	14,003	3,983	2,386	20,372
At 31 December 2014	0	14,003	3,341	2,039	19,383
At 31 December 2015	2,841	15,120	3,423	4,825	26,209

### 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.

# NOTES

## 10. INVESTMENT IN SUBSIDIARIES

During the year the Group acquired the company Sæferdir ehf., Jac. Meisner Internationaal Expeditiebedrijf B.V. and Cargocan Agency Ltd. The acquisitions were 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 Jac. Meisner Internationaal Expeditiebedrijf B.V. and Cargocan Agency Ltd.

	PREACQUISITION CARRYING AMOUNTS	FAIR VALUE ADJUSTMENT	RECOGNIZED VALUES ON ACQUISITION
Property, vessels and equipment . . . . .	2,386	0	2,386
Intangible assets . . . . .	0	2,978	2,978
Goodwill . . . . .	0	915	915
Unlisted shares . . . . .	39	0	39
Inventories . . . . .	74	0	74
Trade and other receivables . . . . .	2,919	0	2,919
Cash and cash equivalents . . . . .	1,195	0	1,195
Deferred tax liability . . . . .	( 49)	0	( 49)
Interest-bearing borrowings . . . . .	( 1,609)	0	( 1,609)
Trade and other payables . . . . .	( 2,622)	0	( 2,622)
Net identifiable assets and liabilities . . . . .	2,333	3,893	6,226
Calculated goodwill on acquisition . . . . .	5,872	( 3,893)	1,979
Total purchase price on acquisition . . . . .	8,205	0	8,205

## 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 IN PROFIT 2015	SHARE IN PROFIT 2014	BOOK VALUE 2015	BOOK VALUE 2014
Qingdao Port Eimskip Coldchain Log. Co. Ltd., China . . .	30.0%	179	17	1,036	816
Truenorth Ísland ehf., Iceland . . . . .	31.9%	87	156	703	716
P/F í Áninum, The Faroe Islands . . . . .	50.0%	41	44	688	648
Hammerfest Fryseterminal AS, Norway . . . . .	20.5%	24	12	182	168
		331	229	2,609	2,348

# NOTES

## 12. DEFERRED TAX ASSETS AND LIABILITIES

### RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

2015	ASSETS	LIABILITIES	NET
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	4	( 599)	( 595)
Tax loss carried-forward	4,745	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
<b>2014</b>			
Property, vessels and equipment	787	( 445)	342
Intangible assets	382	( 6)	376
Current assets	1,239	( 1)	1,238
Current liabilities	3	0	3
Other	29	( 463)	( 434)
Tax loss carried-forward	5,222	0	5,222
Total tax assets (liabilities)	7,662	( 915)	6,747
Set off tax	( 589)	589	0
Net tax assets	7,073	( 326)	6,747

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 1.4 million EUR (2014: 1.6 million).

## 13. TRADE AND OTHER RECEIVABLES

Trade and other receivables are specified as follows:

	2015	2014
Trade receivables	77,859	69,567
Restricted cash	1,763	1,752
Other receivables	4,289	4,341
Trade and other receivables total	83,911	75,660

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	( 7,349)	( 6,508)
Write-offs	594	642
Changes in allowance for impairment losses	( 2,491)	( 1,483)
Balance at year-end	( 9,246)	( 7,349)

# NOTES

## 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 194,081,180 at the beginning of year 2014. In March 2014, 7,441,950 shares were transferred to Eimskip from A1988 hf. and therefore total outstanding shares were 186,639,230 at the year-end. The EUR amount of capital stock was 1.2 million at year-end 2015.

### 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.

A1988 hf. 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.

### DIVIDEND

Shareholders are entitled to receive dividend as declared from time to time. According to a resolution made on the Company's 2015 Annual General Meeting, dividend in the amount of EUR 6.2 million or ISK 5.00 per share, was paid to shareholders, which represented 45.7% of the Company's profits for the year 2014.

According to a resolution made on the Company's 2014 Annual General Meeting, dividend in the amount of EUR 3.1 million or 2.60 ISK per share, was paid to shareholders, which represented 30% of the Company's profits for the year 2013.

According to a resolution made on the Company's 2013 Annual General Meeting, a dividend of EUR 2.7 million or 2.1 ISK per share was paid out to shareholders, which represented 20% of the Company's profits for the year 2012.

The Board of Directors proposes a dividend payment to shareholders in 2016 in the amount of ISK 6.50 per share. The proposed dividend payment is ISK 1,213.2 million, or EUR 8.5 million, which represents 47.9% of net earnings for the year 2015. Treasury shares are not entitled to receive dividend.

## 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:

	2015	2014
Net earnings attributable to equity holders of the Company	17,343	13,477
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)	0.0929	0.0722

Amounts are in thousands of EUR  
Notes to the Consolidated Financial Statements 2015

# NOTES

## 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:

	2015	2014
Secured bank loans . . . . .	65,273	59,070
Finance lease liabilities . . . . .	6,128	5,362
Total non-current loans and borrowings . . . . .	<u>71,401</u>	<u>64,432</u>

### SECURED BANK LOANS

	2015		2014	
	NOMINAL INTEREST	CARRYING AMOUNT	NOMINAL INTEREST	CARRYING AMOUNT
Secured bank loans are payable as follows:				
Loans in EUR . . . . .	3.0%	44,284	3.8%	38,595
Loans in USD . . . . .	2.6%	10,165	2.7%	11,284
Loans in ISK . . . . .	7.1%	9,794	7.2%	7,370
Loans in other currencies . . . . .	-	1,030	-	1,821
Total secured bank loans . . . . .		65,273		59,070
Current maturities . . . . .		( 12,806)		( 12,789)
Short-term borrowings . . . . .	*	( 897)		0
Total non-current secured bank loans . . . . .		<u>51,570</u>		<u>46,281</u>

### AGGREGATED ANNUAL MATURITIES ARE AS FOLLOWS:

	2015	2014
On demand or within 12 months . . . . .	13,703	12,789
12 - 24 months . . . . .	5,485	11,867
24 - 36 months . . . . .	5,390	4,172
36 - 48 months . . . . .	5,361	4,172
48 - 60 months . . . . .	3,878	4,146
After 60 months . . . . .	31,456	21,924
Total secured bank loans . . . . .	<u>65,273</u>	<u>59,070</u>

\* Short-term borrowings that are classified as current liabilities mainly consist of an operational credit-line and an overdraft facility.

### FINANCE LEASE LIABILITIES

	2015		2014	
	MINIMUM LEASE PAYMENTS	PRINCIPAL	MINIMUM LEASE PAYMENTS	PRINCIPAL
Finance lease liabilities are payable as follows:				
Less than one year . . . . .	2,849	2,699	2,110	2,065
Between one and five years . . . . .	3,625	3,429	3,522	3,297
Total . . . . .	<u>6,474</u>	<u>6,128</u>	<u>5,632</u>	<u>5,362</u>

## 17. TRADE AND OTHER PAYABLES

Trade and other payables are attributable to the following:

	2015	2014
Trade payables . . . . .	33,908	32,448
Income tax payable . . . . .	749	753
Other payables . . . . .	20,424	17,609
Total . . . . .	<u>55,081</u>	<u>50,810</u>

# NOTES

## 18. FINANCIAL RISK MANAGEMENT

### OVERVIEW

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

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about Eimskip's exposure to each of the above risks, 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.

### 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.

# NOTES

## 18. FINANCIAL RISK MANAGEMENT, CONTINUED

### 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:

	NOTES	2015 CARRYING AMOUNT	2014 CARRYING AMOUNT
Trade and other receivables . . . . .	12	83,911	75,660
Cash and cash equivalents . . . . .		35,983	39,539
Total . . . . .		119,894	115,199

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was as follows:

	2015 CARRYING AMOUNT	2014 CARRYING AMOUNT
North Atlantic . . . . .	71,491	60,287
Other regions . . . . .	12,420	15,373
Total . . . . .	83,911	75,660

### IMPAIRMENT RISK

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

	GROSS 2015	IMPAIRMENT 2015	GROSS 2014	IMPAIRMENT 2014
Not past due . . . . .	61,038	( 171)	54,142	( 175)
Past due 1 - 90 days . . . . .	20,737	( 2,411)	19,650	( 1,159)
Past due 91 - 180 days . . . . .	4,161	( 2,007)	3,689	( 1,487)
More than 180 days . . . . .	7,221	( 4,657)	5,528	( 4,528)
Total . . . . .	93,157	( 9,246)	83,009	( 7,349)

### (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.

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
<b>31.12.2015</b>						
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
<b>31.12.2014</b>						
Secured bank loans . . . . .	59,070	69,471	14,819	13,244	15,563	25,846
Finance lease liabilities . . . . .	5,362	5,826	2,592	1,897	1,337	0
Trade and other payables . . . . .	50,810	50,810	50,810	0	0	0
Total . . . . .	115,242	126,107	68,221	15,141	16,900	25,846

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

# NOTES

## 18. FINANCIAL RISK MANAGEMENT, CONTINUED

### (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 2015 the primary risks are attached to the US Dollar (USD), the Chinese Yuan (RMB) 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 2015	USD	ISK	RMB	JPY	OTHER
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

31 DECEMBER 2014	USD	ISK	RMB	JPY	OTHER
Trade and other receivables	11,070	18,239	4,692	709	3,886
Cash and cash equivalents	4,683	895	460	4	1,778
Loans and borrowings	( 848)	( 11,915)	( 264)	0	( 77)
Trade and other payables	( 4,478)	( 13,826)	( 5,781)	( 5)	( 4,191)
Net balance sheet exposure	10,427	( 6,607)	( 893)	708	1,396

The following significant exchange rates were applied during the year:

	AVERAGE RATE		REPORTING DATE SPOT RATE	
	2015	2014	2015	2014
EUR:				
USD	1.1094	1.3262	1.0887	1.2141
ISK	146.3516	154.8383	141.3000	154.2500
RMB	6.9696	8.1692	7.0608	7.5358
JPY	134.2860	140.2534	131.0700	145.2300
PLN	4.1812	4.1843	4.2639	4.2732
DKK	7.4589	7.4548	7.4626	7.4453

### SENSITIVITY ANALYSIS

A 10% strengthening of the EUR against the following currencies at 31 December 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 2014.

	2015	2014
USD	( 1,499)	( 807)
ISK	374	528
RMB	( 73)	51
JPY	( 78)	( 57)
PLN	( 66)	( 28)
DKK	( 80)	( 38)

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.

Amounts are in thousands of EUR  
Notes to the Consolidated Financial Statements 2015

# NOTES

## 18. FINANCIAL RISK MANAGEMENT, CONTINUED

### INTEREST RATE RISK

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

VARIABLE RATE INSTRUMENTS	2015 CARRYING AMOUNT	2014 CARRYING AMOUNT
Financial assets . . . . .	35,983	39,539
Financial liabilities . . . . .	( 71,401)	( 64,432)
Net exposure . . . . .	( 35,418)	( 24,893)

A change of 100 basis points in interest rates at the reporting date would increase (decrease) result after income tax by EUR 174 thousand (2014: EUR 217 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 2014.

Eimskip does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect 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.

### 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	2015	2014
Total equity . . . . .	228,124	216,472
Total balance sheet capital . . . . .	355,157	332,040
Equity ratio . . . . .	64.23%	65.19%

### (II) NET DEBT TO EBITDA RATIO

Total interest-bearing debt . . . . .	71,401	64,432
Cash and cash equivalents . . . . .	( 35,983)	( 39,539)
Net debt . . . . .	35,418	24,893
EBITDA . . . . .	45,197	38,542
Net debt / EBITDA . . . . .	0.78	0.65

# NOTES

## 19. COMMITMENTS

### OPERATING LEASE COMMITMENTS

Non-cancellable operating lease commitments are payable as follows:

	2015	2014
Less than one year . . . . .	3,918	3,684
Between one and five years. . . . .	4,699	4,571
More than five years. . . . .	1,120	348
Total operating lease commitments . . . . .	9,737	8,603

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.

### CAPITAL COMMITMENTS

In 2011 Eimskip entered into an agreement with a Chinese shipbuilding company for the building of two new container vessels. The first vessel, Lagarfoss, was delivered in the second quarter of 2014. The process of building the second vessel was not proceeding according to plan and on 31 August 2015 the Company decided to cancel the vessel building project. The Company received on 13 October 2015 a cash payment based on a bank guarantee in the amount of USD 16.1 million, equal to EUR 14.1 million. The Company had capitalized EUR 12.1 million for the vessel construction. The difference between the refund and the capitalized amount was EUR 2.0 million and was recognized as operating revenue. The amount is considered as a gain on disposal of assets and indemnity which is recorded as operating revenue.

## 20. RELATED PARTIES

The Company's largest shareholders Yucaipa American Alliance Fund II LP, with 16.34% shareholding, Lífeyrissjóður verzlunarmanna with 15.24% 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 personell (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		SHARES AT YEAR-END*	
	2015	2014	2015	2014
<b>FEE PAID TO THE BOARD OF DIRECTORS</b>				
Richard Winston Mark d'Abo, Chairman ***. . . . .	45	38	0	0
Víglundur Thorsteinsson, Vice-Chairman . . . . .	34	28	0	0
Helga Melkorka Óttarsdóttir, Board Member . . . . .	25	22	0	0
Hrund Rudolfsdóttir, Board Member . . . . .	34	29	0	0
Lárus L. Blöndal, Board Member. . . . .	34	23	3,190	3,190
Marc Jason Smernoff, Alternate of the Board ***. . . . .	22	15	0	0
Gunnar Karl Guðmundsson, former Vice-Chairman . . . . .	0	7	0	0

### SALARIES AND BENEFITS PAID TO EXECUTIVE MANAGEMENT

2015	BASE SALARY		OTHER **	SHARES AT YEAR-END*
	2015	2014	2015	2014
Gylfi Sigfússon, CEO . . . . .	420	99	9,615	9,615
Hilmar Pétur Valgardsson, CFO . . . . .	254	43	9,616	9,616
Bragi Thór Marinósson, EVP International. . . . .	201	79	2,404	2,404
Guðmundur Nikulásson, VP Iceland domestic . . . . .	150	38	4,808	4,808
Ásbjörn Skúlason, VP Ship management . . . . .	150	35	2,404	2,404
Matthías Matthíasson, VP Transportation services . . . . .	150	35	9,615	9,615

*Amounts are in thousands of EUR  
Notes to the Consolidated Financial Statements 2015*

# NOTES

## 20. RELATED PARTIES, CONTINUED

SALARIES AND BENEFITS PAID TO EXECUTIVE MANAGEMENT	BASE SALARY	OTHER **	SHARES AT YEAR-END*
<b>2014</b>			
Gylfi Sigfússon, CEO . . . . .	362	108	9,615
Hilmar Pétur Valgardsson, CFO . . . . .	232	42	9,616
Bragi Thór Marinósson, EVP International. . . . .	184	72	2,404
Gudmundur Nikulásson, VP Iceland domestic . . . . .	137	33	4,808
Ásbjörn Skúlason, VP Ship management . . . . .	137	34	2,404
Matthías Matthíasson, VP Transportation services . . . . .	137	28	9,615

\* 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.

## 21. GROUP ENTITIES

At year-end the Company owned directly nine subsidiaries that are all included in the consolidation. During the year the Company acquired the company Sæferdir ehf. and subsidiaries of the Company acquired the companies Jac. Meisner Internationaal Expeditiebedrijf B.V. and Cargocan Agency Ltd., the cold storage operation of St. Anthony Cold Storage Ltd. and established the joint venture Eimskip & KCie GmbH & Co. KG. The companies acquired are included in the Consolidated Financial Statements and have an immaterial effect. The direct subsidiaries owned 50 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 subsidiaries are as follows:

	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2015	OWNERSHIP INTEREST 2014
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%	0%

## 22. 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.

In December 2015, a subsidiary holding company received a EUR 0.9 million fine relating to an operating company that went bankrupt before the 2009 composition. The fine is for periods from 2007 to 2009. The subsidiary holding company recognized this charge in the fourth quarter of 2015. The Company's subsidiary is in the process of appealing the case.

## 23. SUBSEQUENT EVENTS

There are no material subsequent events to report.

# NOTES

## 24. 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.

### 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.

# NOTES

## 24. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### C. FINANCIAL INSTRUMENTS, CONTINUED

#### (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 2014 and 2015 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.

#### (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.

# NOTES

## 24. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### D. PROPERTY, VESSELS AND EQUIPMENT, CONTINUED

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.

#### (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.

# NOTES

## 24. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### 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.

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 BENEFITS

#### (i) 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.

# NOTES

## 24. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### K. REVENUE

#### SERVICES

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.

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 Group's 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

The group has adopted all Financial Reporting Standards, interpretations and amendments to standards that the EU has adopted and have become effective for the year 2015 and are relevant for the group. A few new standards, amendments to standards and interpretations have not become effective for the year 2015 and have not been applied in preparing these Consolidated Financial Statements. A number of new standards and amendments to standards are effective for the year 2015. The Group has adopted these standards but their impact on the Group's financial statements is immaterial.



BARNAFOSSAR WATERFALLS IN HVÍTÁ RIVER

## QUARTERLY STATEMENTS - UNAUDITED

YEAR 2015	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015
Revenue .....	112,663	126,587	129,721	130,610	499,581
Expenses .....	<u>106,879</u>	<u>113,281</u>	<u>113,361</u>	<u>120,863</u>	<u>454,384</u>
<b>Operating profit, EBITDA</b> .....	5,784	13,306	16,360	9,747	45,197
Depreciation and amortization .....	( 5,735)	( 5,790)	( 5,933)	( 7,271)	( 24,729)
<b>Results from operating activities, EBIT</b> .....	49	7,516	10,427	2,476	20,468
Net finance income (expense) .....	<u>2,170</u>	<u>( 1,661)</u>	<u>( 482)</u>	<u>392</u>	<u>419</u>
Share of earnings of associated companies .....	<u>92</u>	<u>94</u>	<u>66</u>	<u>79</u>	<u>331</u>
<b>Net earnings before income tax</b> .....	2,311	5,949	10,011	2,947	21,218
Income tax .....	( 787)	( 434)	( 1,537)	( 658)	( 3,416)
<b>Net earnings</b> .....	<u>1,524</u>	<u>5,515</u>	<u>8,474</u>	<u>2,289</u>	<u>17,802</u>
YEAR 2014	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014
Revenue .....	104,200	108,978	119,583	118,794	451,555
Expenses .....	<u>98,182</u>	<u>97,929</u>	<u>106,949</u>	<u>109,953</u>	<u>413,013</u>
<b>Operating profit, EBITDA</b> .....	6,018	11,049	12,634	8,841	38,542
Depreciation and amortization .....	( 5,656)	( 5,903)	( 5,584)	( 6,052)	( 23,195)
<b>Results from operating activities, EBIT</b> .....	362	5,146	7,050	2,789	15,347
Net finance (expense) income .....	<u>( 856)</u>	<u>86</u>	<u>1,192</u>	<u>169</u>	<u>591</u>
Share of (loss) earnings of associated companies .....	<u>( 27)</u>	<u>115</u>	<u>171</u>	<u>( 30)</u>	<u>229</u>
<b>Net (loss) earnings before income tax</b> .....	( 521)	5,347	8,413	2,928	16,167
Income tax .....	( 272)	( 754)	( 896)	( 638)	( 2,560)
<b>Net (loss) earnings</b> .....	<u>( 793)</u>	<u>4,593</u>	<u>7,517</u>	<u>2,290</u>	<u>13,607</u>

# CORPORATE GOVERNANCE STATEMENT

With this statement on the Corporate Governance of Eimskipafélag Íslands hf. (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.

The Corporate Governance Guidelines, along with the Company's Articles of Association and rules for Issuers of Securities listed on Nasdaq Iceland, make up the framework for the Corporate Governance practices for Eimskip. The purpose of the issue of this Corporate Governance Statement is to strengthen the infrastructure of Eimskip and increase transparency.

The Corporate Governance Statement of Eimskip is accessible on the Company's website, [www.eimskip.is](http://www.eimskip.is), and is published in a special chapter in the Company's Financial Statements.

The Corporate Governance Guidelines are available on [www.corporategovernance.is](http://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 available on the Parliament's website, [www.althingi.is](http://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](http://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](http://www.eimskip.is/investors). Other news are published on the Company's website, [www.eimskip.is](http://www.eimskip.is).

Proposals or questions from shareholders to the Board of Directors shall be sent to [investors@eimskip.is](mailto:investors@eimskip.is) and [compliance@eimskip.is](mailto: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 a good state. 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 2015, the total number of Board meetings was 12 and the Board was competent to make decisions in all meetings.

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 managers, 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 2015 will be concluded in March 2016.

# CORPORATE GOVERNANCE STATEMENT

## MAIN ROLES 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 initiative, together with the CEO, in 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 administer 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 9 July 2012. A copy can be obtained from the Company's website, [www.eimskip.is](http://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 managers and the Company's independent auditors and to ensure the independence of the Company's independent auditors. The role and main projects 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 2015, the Audit Committee held a total of 5 meetings.

The role of the Remuneration Committee includes preparing the Company's remuneration policy and insuring its enforcement and negotiating with the CEO on wages and other employment terms. The role and main projects 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 2015, the Remuneration Committee held a total of 3 meetings.

## 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 26 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.

# CORPORATE GOVERNANCE STATEMENT

## **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 Reykjavík 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. Helga was nominated as a Leading Lawyer in financial and corporate law in IFLR1000 in 2011, 2012 and 2013 and a Leading Individual in Chambers Global, most recently in 2013. 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 Stefmir 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.

## **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 lögfræðistofan 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, Föroyagrúnnurin 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 must follow 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. The 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 in the 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 Tollvörugæymslan 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 and the Greenland-Icelandic 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, the Chief Financial Officer and the Directors of International Operations, Iceland Domestic Operations, Ship Management and Transportation 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, Guðmundur Nikulásson is the Vice President of Iceland Domestic Operations, Ásbjörn Skúlason is the Vice President of Ship Management and Matthías Matthíasson is the Vice President of Transportation Services.

Further information on the Executive Management is provided in the Annual Report on the Company's website, [www.eimskip.is](http://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 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 in relation to financial processes are designed to control 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 Company's risk management policy is aimed at minimizing potential negative effects on operations and earnings from marketing, operational and financial activities and to limit risks to acceptable levels.

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.

# CORPORATE GOVERNANCE STATEMENT

## **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.

In December 2015, a subsidiary holding company received a EUR 0.9 million fine relating to an operating company that went bankrupt before the 2009 composition. The fine is for periods from 2007 to 2009. The subsidiary holding company recognized this charge in the fourth quarter of 2015. The Company's subsidiary is in the process of appealing the case.

## **COMPANY VALUES, CODE OF CONDUCT AND SOCIAL RESPONSIBILITY AND ENVIRONMENTAL MATTERS**

The Board of Directors has issued a statement of Code of Conduct and Social Responsibility which applies to all board members of Eimskip and companies within the Eimskip group.

In the statement, the Company has set out its values which are: Achievement, Cooperation and Trust (ACT).

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

The CEO supervises all grants related to the Company's social responsibility program through the Corporate Communication and Marketing division and the Vice Presidents. All final and major decisions on grants are taken by the CEO according to the approved budget and the Board of Directors is kept informed.

In Eimskip's Annual Report an analysis is made of elements concerning the Company's values, its code of conduct and social responsibility as well as environmental matters, which the Company uses to better understand its development, success and position. Eimskip's Annual Reports and its statement of Code of Conduct and Social Responsibility are accessible on the Company's website, [www.eimskip.is](http://www.eimskip.is).



## **FORWARD-LOOKING STATEMENTS**

Statements contained in this Annual Report that refer to Eimskip's estimated or anticipated future results or future activities are forward-looking statements which reflect the Company's current analysis of existing trends, information and plans. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially depending on factors such as the availability of resources, the timing and effect of regulatory actions and other factors. Eimskip undertakes no obligation and does not intend to update these forward-looking statements to reflect events or circumstances occurring after the date of issue of this Annual Report. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the issue of this Annual Report. All forward-looking statements are qualified in their entirety by this cautionary statement.

### **EIMSKIP ANNUAL REPORT 2015**

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