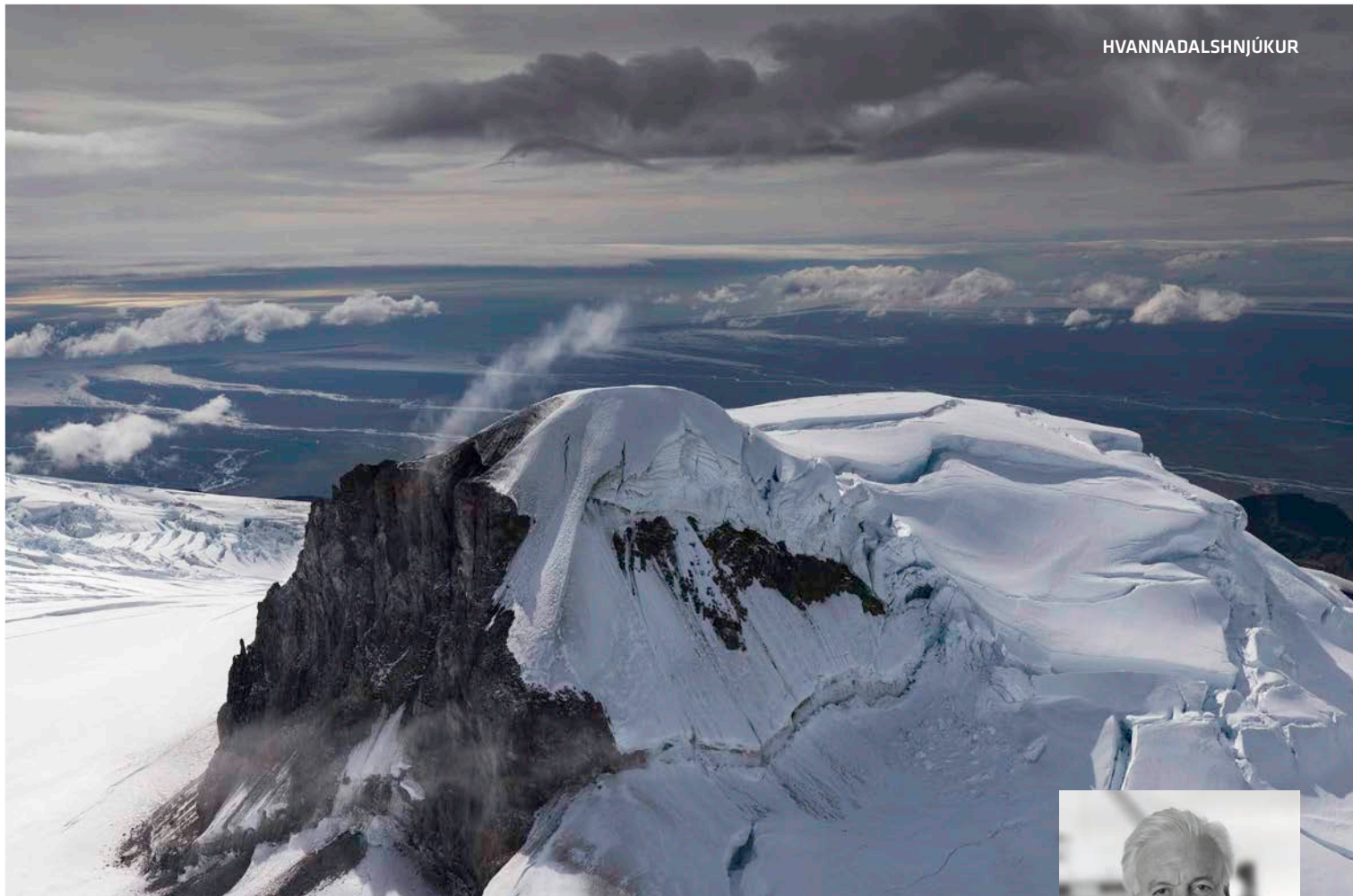


An aerial photograph of a volcanic landscape. In the center, a vibrant blue lake winds through a valley. The surrounding terrain is a mix of dark, rocky volcanic slopes and patches of green moss or lichen. Pockets of snow are scattered across the higher elevations and in the crevices of the mountains. The sky is filled with soft, white clouds. The overall scene is rugged and majestic.

# ANNUAL REPORT 2016

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Richard Winston Mark d'Abo

## CHAIRMAN'S ADDRESS

### BACKGROUND AND EARNINGS

Eimskip continues to grow; 2016 was our seventh year of growth in volume of liner services, up 5.9%, and our forwarding services volume was up 4.8%, which was quite an achievement given the competitive pressures. This reflects the niche nature of our liner services in the North Atlantic and our worldwide specialized reefer forwarding services. We also benefitted from the strong Icelandic economy and had good results from Norway and the Faroe Islands. In 2016, we had record revenue of EUR 513.9 million and EBITDA of EUR 53.5 million, which on a normalized basis was up 23.7%. Our net earnings amounted to EUR 21.9 million, up 23%. Eimskip provides vital services connecting our customers with the major markets in Europe, North America and all over the world through our forwarding division. Our customers rely on our dependability and the quality of our services. These are guiding principles, as is continuous improvement, as shown by our investment in infrastructure, systems and team members.

### ACQUISITION GROWTH AND BALANCE SHEET

We set out last year to use our balance sheet to make strategic acquisitions, strengthen our sailing system and continue renewing our vessel fleet to better serve our customers and create value for our shareholders. We have recently closed two strategic acquisitions in the forwarding business: first Extraco, in Rotterdam, in October 2016 and then Mareco, in January 2017, for a total of approximately EUR 29 million. Both are based in our existing markets of the Netherlands and Belgium, and both have strong niche positions in the reefer cargo market that will supplement and add expertise in different international markets and commodities. These are accretive asset-light acquisitions that will diversify geographic sales and EBITDA, provide excellent balance to our liner business and free cash flow. In each of these acquisitions, the founders have retained an equity interest because being a part of our network is attractive. We intend to continue to grow, integrate, share best practices across our forwarding business and to look for additional niche acquisitions. In 2016, if you pro forma for Extraco and Mareco, revenues in forwarding services represent 36% of Eimskip's total revenue, up from 26%. On a pro forma basis, 27% of total revenue will come from Europe, up from 15%.

In January 2017, we signed a vessel sharing agreement with Royal Arctic Line which includes the purchase of two vessels at a cost of approximately USD 64 million; we anticipate financing about USD 45 million at attractive rates over a ten-year period or longer. These two 2,150 TEU vessels will be built to Polar Code, fitted with scrubbers, be very fuel efficient and meet the highest environmental standards. This will allow us to service Greenland with Royal Arctic Line in a vessel sharing agreement that will lower the cost per TEU for both carriers and better serve our customers. These vessels are also a part of our fleet renewal program and will help our reliability and quality of service. Together with Royal Arctic Line, we will open new markets for export and imports to and from Greenland and should grow inter trading within our sailing system. This is a strategic transaction that helps connect the nations of the North Atlantic.

In November 2016, we announced the acquisition of Nor Lines, subject to the approval of the Norwegian Competition Authority (NCA). The NCA is challenging this acquisition and we do not know what the outcome will be. The challenge arises in part from a narrow definition of the marketplace. Three of the five vessels currently operated by Nor Lines were previously built and operated by Eimskip in the same market.

The net effect of these acquisitions and ordering new vessels will be to increase the leverage of the company and give us a pro forma equity ratio of below 60%. We anticipate growth both internally and externally. We are continuing to look at additional strategic acquisitions that will add diversification in our markets and allow us to better serve our customers. We are also continuing to look at purchasing recently-built second hand vessels for use in our trade. In February this year, we purchased the Sophia, a 698 TEU vessel built in 2008, at an attractive price, to replace the Brúarfoss, which was built in 1992. After net proceeds from the sale of Brúarfoss we will have spent approximately USD 3 million. There should be other opportunities to buy attractively priced second hand vessels in 2017. Our strong financial condition will allow us to take advantage of these opportunities.

#### **DIVIDEND GROWTH**

The Board, in keeping with its dividend policy, is recommending a raise of the dividend to ISK 6.80 per share, an increase of 4.6% in ISK terms that represents a 50% payout of net earnings for a total dividend payment of ISK 1,269.1 million. Due to the strengthening of the Icelandic krona, the total dividend was equivalent to EUR 11.0 million which was up 27.7% in Euro terms. The Board has also approved to change the Company's dividend policy to allow for higher dividend payout of between 10% and 65% of net earnings, as opposed to the previous 10-50% of net earnings. This will give the Board greater flexibility in deciding on the appropriate dividend level according to circumstances.

Eimskip intends to increase shareholder value by growing the earnings and cash flow of the company and by paying a growing, sustainable dividend.

#### **CONNECTING THE COMMUNITIES OF THE NORTH ATLANTIC**

I would like to thank all of our customers and shareholders for their continued support. Our customers are our lifeblood, and we strive to provide them with the most efficient and effective solutions to their needs with great service and systems. We are enthused by our vessel sharing with Royal Arctic Line and expanding our sailing system in the North Atlantic. We continue to invest in our infrastructure and systems to better serve our customers and our team members. The new vessels we have ordered set new environmental standards. We are also conscious of the need to minimize our ecological footprint – these are all things that we know are important to our customers, the communities we serve and to us.

In addition to our long tradition of dependable service, we are active in the communities we serve and we support many cultural and communal projects. The welfare of the communities we serve, our customers, our team members and the environment are all important to us.

I also say a big thank you to our management team led by Gylfi Sigfússon and all of our team members in Iceland and all over the world for achieving our record year. It is important for Eimskip to provide an enthusiastic and innovative workplace that encourages team input and spirit to better performance. Eimskip is a part of the infrastructure that makes up our North Atlantic market and we seek to help provide the best and most consistent transportation and logistics services to the communities.

Our forecast for 2017 is positive. We are projecting EBITDA of EUR 57 to 63 million with continued volume growth in Iceland, though the seafood strike in Iceland that ended in mid-February will affect the first quarter results. There is a positive outlook for the Faroe Islands and Norway. We also expect growth in our forwarding business due to the recent acquisitions and rising international freight rates.

The recent announcements by the Icelandic Government of the lifting of capital controls are very encouraging and a great achievement. This will be good for the Icelandic economy.



# PRESIDENT AND CEO'S ADDRESS

## 2016 WAS A RECORD YEAR FOR EIMSKIP



Gylfi Sigfússon

Eimskip's revenue in 2016 amounted to EUR 513.9 million and grew by 2.9% from the previous year. The Company's operating profit for the year, EBITDA, amounted to EUR 53.5 million, an increase of 18.3% from the previous year. Eimskip's balance sheet at the end of 2016 remained solid and strong, with low leverage and total assets amounting to EUR 391.7 million, net debt of EUR 41.6 million and a 62.2% equity ratio. The Company's cash flows remained strong: net cash from operating activities grew by EUR 11.3 million or 30.3% from 2015 and cash and cash equivalents amounted to EUR 39.5 million at the end of the year.

Transported volume in the Company's liner services in the North Atlantic grew by 5.9% compared with 2015, with good growth in transported volume related to Iceland and Norway. Transported volume in the Company's forwarding services grew by 4.8% from 2015, due mainly to increased transportation through newly acquired companies and organic growth. Intra-Asian business is also strengthening due to greater diversification in commodities and growth in Intra-Asian trade.

### FORWARDING AN IMPORTANT SOURCE OF REVENUE

Eimskip's freight forwarding services now contribute 26% of its total revenue and 21% of its EBITDA. Reefer forwarding services have been growing constantly over the past years, driven by organic growth, new markets and commodities and by acquisitions. Emphasis has been placed not only on reefer trade, but also on dry cargo and project cargo. Eimskip's forwarding services are an asset-light business that is offered in cooperation with various deep-sea lines outside the Company's sailing system. The freight 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, opening up new market trade lanes with a broader range of commodities, such as meat, fruit and vegetables, into new markets, such as Africa and South America.

### ORGANIC GROWTH AND STRATEGIC ACQUISITIONS

The emphasis in the Company's forwarding sector has been on growing organically but also on acquisitions that will bring more diversity into the commodities handled and open up new trade lanes. In 2016, Eimskip acquired a majority share in the specialized forwarding company Extraco in the Netherlands which will strengthen its niche in the forwarding market. Extraco's office will be relocated in Eimskip's headquarters in Rotterdam to secure the synergies that were planned with the acquisition. In January this year, Eimskip also acquired a majority share in Mareco, a Belgian freight forwarding company that will give Eimskip access to new commodities and new markets in Africa and South America.

Last year, Eimskip signed a letter of intent with Royal Arctic Line, the national carrier of Greenland, to explore the possibility of joint construction of larger ice class Polar Code container vessels to optimize operational economies of scale, reducing operational costs per TEU as compared with the use of our current vessels. The intention is also to connect Greenland better with the rest of the world and to share capacity. This will allow for growth in business between Iceland, Greenland and the Faroe Islands, allow Greenland to have more variety in sourcing imports and enable its exporters to export directly to other Scandinavian countries instead of exclusively to Denmark. Eimskip also signed an agreement in November to acquire the Norwegian shipping and logistics company Nor Lines, which serves Norway with five vessels, trucking services and terminals. Eimskip is waiting for the final conclusion of the Norwegian Competition Authority; in February the authority issued a notice of an objection regarding the acquisition.

Eimskip's capital structure is strong and well prepared for future investments and opportunities, both in the North Atlantic and around the globe. The Company is constantly reviewing and optimizing its sailing system, listening to the needs of its customers and monitoring market trends, seeking ways to reduce vessel and container fleet costs and improve utilization of its transportation system.

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 system through investments in vessels, equipment and IT solutions and by building up infrastructure to create value for customers. At the end of February 2017, changes were made to the sailing system which will increase capacity to and from Europe and North America by 7-11%. A new Red Line was added to strengthen the services in Scandinavia and services to and from North America on the Green Line will be increased with transshipments in Reykjavík and more frequency and additional capacity. Weekly coastal services are now offered to support increasing activities in Iceland, served by the Gray Line which also serves the Faroe Islands and the UK.

The Company will continue to follow its vision, but will also look for external growth opportunities and diversification of business, just as it did in 2016 with dynamic strategic acquisitions. To follow up on the successful additions last year, and as part of its strategy, Eimskip is currently looking into potential mergers and acquisitions that will fit its vision and create operational synergy and increase shareholder value.

Positive developments are taking place in the North Atlantic transportation market, covering the area from Northern Norway to North America. We are expecting increased volume to and from Iceland in 2017 and also volume growth to and from the Faroe Islands. The outlook for Norway in the coming years is also positive. Trans-Atlantic services are growing and the focus is on increasing frequency and capacity. In Iceland, projects in the silicon industry are moving forward and the salmon industry is growing, which is something that our future sailing system needs to take into account.

#### **MISSION, VISION AND STRATEGIC PRIORITIES**

Eimskip's mission is clear: to be a leading transportation company in the North Atlantic with connections to international markets and to be specialized in worldwide freight forwarding services. The Company's vision is simple: to reach excellence in transportation solutions and services. The main strategic priorities for the year 2017 are to integrate Eimskip's global team of employees, to continue the investment strategy for external growth and to integrate companies so as to ensure maximized synergy and optimize the sailing system and utilization of the vessel fleet. Future environmental requirements are included in this vision, concern for social responsibility and reduction of our ecological footprint. The intention is also to implement strategic procurement processes to reduce costs and to better integrate IT and processes to optimize our service excellence.

Our values are Achievement, Cooperation and Trust and these are our guiding principles in our behavior towards the Company's stakeholders.

#### **ROLE IN THE NORTH ATLANTIC**

Eimskip plays a very important role in the North Atlantic, operating a strong and dependable sailing system. The Company 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, Nova Scotia 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 it in its daily operations. Eimskip's future is bright and full of opportunities and I therefore look forward with confidence to working with our dedicated employees in the 20 countries that we serve with our own offices and with our almost 70 associates worldwide. Our intention is to keep on growing through our strong asset base, which is intimately linked to our liner system in the North Atlantic. We will also grow through our freight forwarding service network, through diversification in commodities and trade lanes and through strong acquisitions. I have great faith in the team spirit of the Eimskip group and know that we have the capacity to achieve good results and increase shareholder value in the coming years.



## BOARD OF DIRECTORS

### **RICHARD WINSTON MARK D'ABO, CHAIRMAN OF THE BOARD**

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



### **VÍGLUNDUR THORSTEINSSON, VICE-CHAIRMAN OF THE BOARD**

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



#### **HELGA MELKORKA ÓTTARSDÓTTIR**

Helga was born in 1966 and lives in Iceland. She is a Managing Partner at LOGOS Legal Services slf. Besides her job at LOGOS, Helga was an adjunct in European Law at the University of 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. 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., Stjánkur ehf and Iceland Chamber of Commerce. 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 has been 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 the CEO of P/f Faroe Ship, Eimskip's subsidiary in the Faroe Islands, from 2006 to 2015, Sales Director of JFK 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 the Faroese Confederation of Sports and Olympic Committees, Nordoyatunnilin, Föroya Grunnurin, the Faroese-Icelandic Chamber of Commerce and visit Faroe Islands. 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 an independent alternate member of the Board 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.





An aerial photograph of a vast, braided river system in a volcanic landscape. The river is composed of numerous channels and oxbow lakes, creating a complex, white, and blue pattern against the dark, rocky terrain. The surrounding land is a mix of dark volcanic ash and patches of green moss or lichen. In the foreground, a large, bright blue lake is visible. The background shows rolling hills and mountains under a clear sky.

REVIEW OF  
THE YEAR

EIMSKIP AND ROYAL ARCTIC LINE IN GREENLAND SIGN A LETTER OF INTENT TO FORM AND EVALUATE A POTENTIAL COOPERATION REGARDING BUILDING OF THREE 2,150 TEU CONTAINER VESSELS WITH AN ESTIMATED DELIVERY IN 2019. IN JANUARY 2017, THE TWO COMPANIES SIGN A COOPERATION AGREEMENT AND CONTRACTS WITH A SHIPYARD IN CHINA ON BUILDING TWO VESSELS FOR EIMSKIP AND ONE FOR ROYAL ARCTIC LINE.



**EIMSKIP** INVESTORS OFFICES

EIMSKIP LAUNCHES A NEW WEBSITE, OFFERING CUSTOMERS AN INTERACTIVE EXPERIENCE WITH MORE LIVE UPDATES ON THE LOCATION OF EIMSKIP'S VESSELS. THE SITE WAS NOMINATED FOR AN AWARD AS ONE OF ICELAND'S BEST NEW WEBSITES.

**COOL CHOICE IN LOGISTICS**

Eimskip is a leading transportation company in the North Atlantic with connections to international markets and is specialized in worldwide freight forwarding services, with the vision of providing excellence in transportation solutions and services.

→ GET TO KNOW EIMSKIP

Sailing Schedule Services Live Map

**SAILING SCHEDULE**

- All Lines
- Blue Line
- Yellow Line
- Red Line
- Gray Line
- Green Line
- Orange Line
- Partner Route

LINER SERVICES LOGISTICS SERVICES



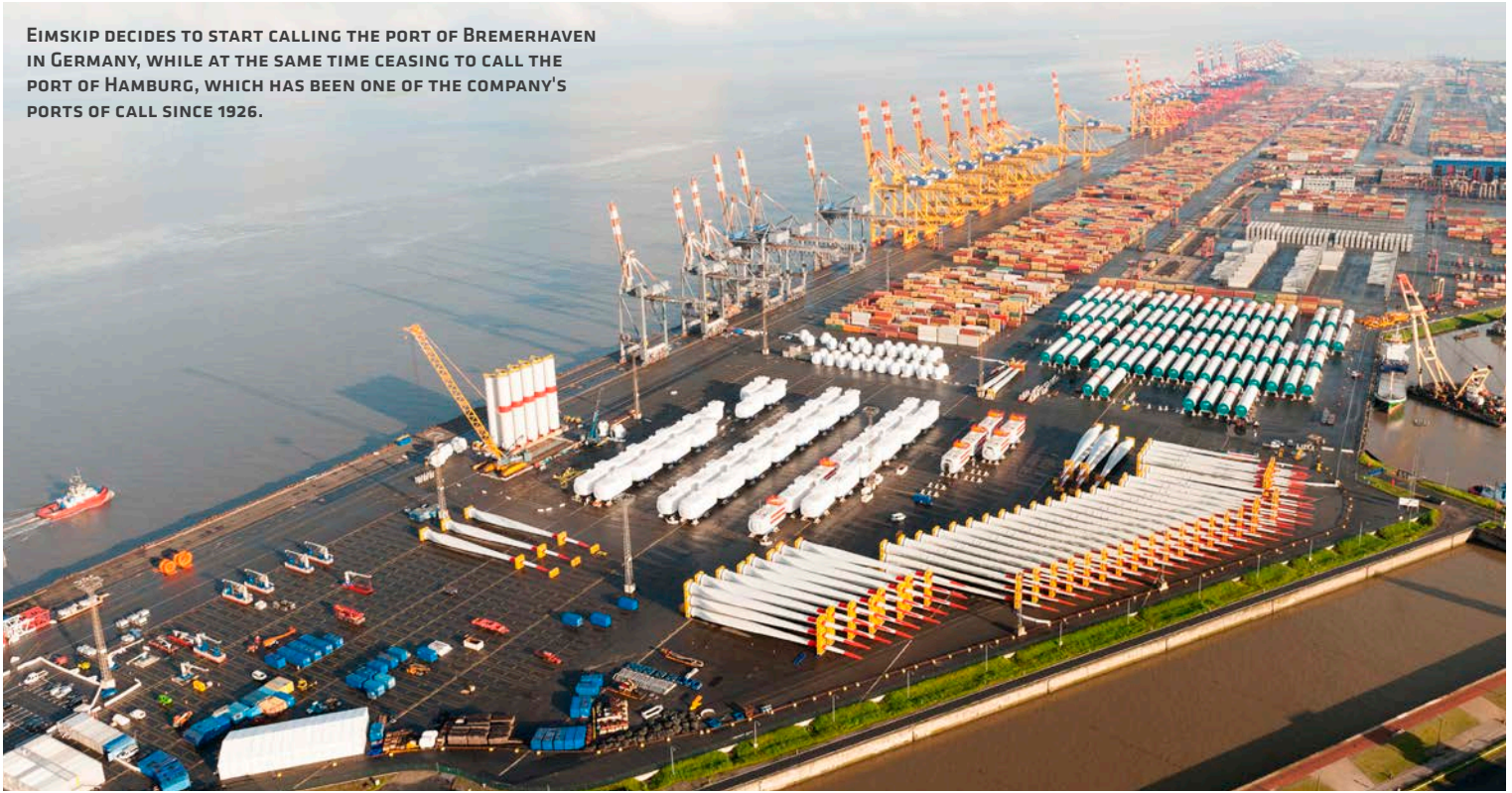
EIMSKIP SIGNS AN AGREEMENT TO ACQUIRE THE SHIPPING AND LOGISTICS COMPANY NOR LINES AS IN NORWAY AND WAITS FOR APPROVAL OF THE NORWEGIAN COMPETITION AUTHORITY.



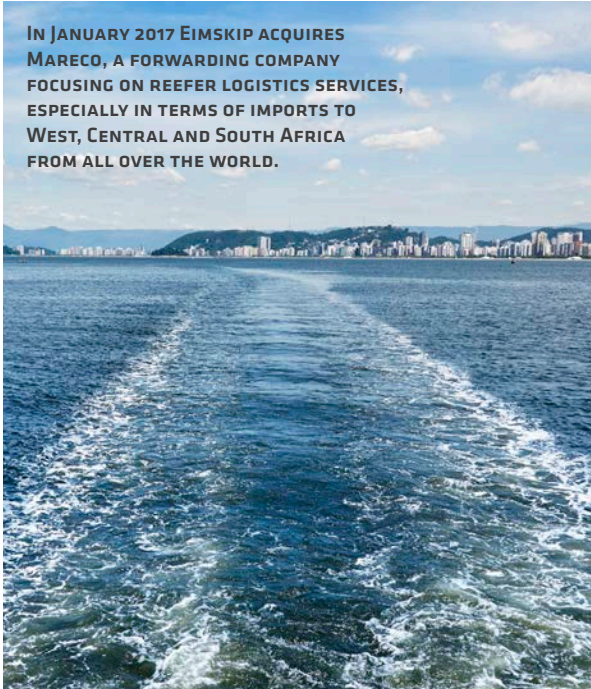
EIMSKIP IMPROVES SERVICES IN THE WESTMAN ISLANDS (OFF THE SOUTH COAST OF ICELAND) BY INSTALLING A HARBOR CRANE. THIS IS THE FIRST HARBOR CRANE TO BE OPERATED IN THE ISLANDS.



EIMSKIP DECIDES TO START CALLING THE PORT OF BREMERHAVEN IN GERMANY, WHILE AT THE SAME TIME CEASING TO CALL THE PORT OF HAMBURG, WHICH HAS BEEN ONE OF THE COMPANY'S PORTS OF CALL SINCE 1926.



IN JANUARY 2017 EIMSKIP ACQUIRES MARECO, A FORWARDING COMPANY FOCUSING ON REEFER LOGISTICS SERVICES, ESPECIALLY IN TERMS OF IMPORTS TO WEST, CENTRAL AND SOUTH AFRICA FROM ALL OVER THE WORLD.

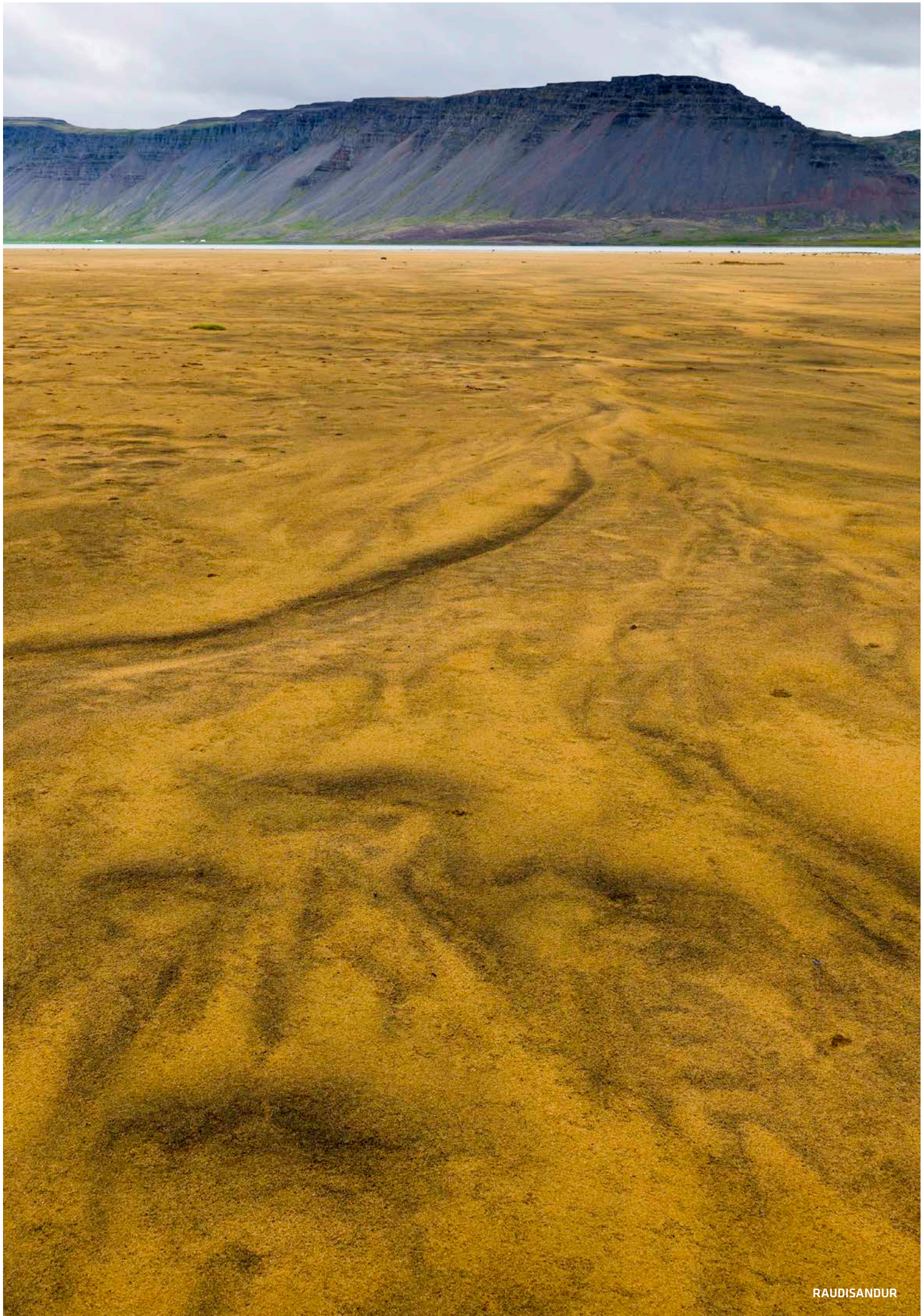


EIMSKIP IS ONE OF THE FIRST COMPANIES IN THE WORLD TO USE WORKPLACE BY FACEBOOK AND IS CURRENTLY EMPLOYING IT IN ALL OF ITS OFFICES AROUND THE WORLD IN ORDER TO ENCOURAGE COOPERATION AND COMMUNICATION.



SINCE EIMSKIP'S VESSELS STARTED CALLING PORTLAND, MAINE IN 2013, THE PORT OF MAINE HAS GROWN STEADILY AS A CARGO PORT AND IN JANUARY 2016 THE FIRST CONTAINERS LEFT THE PORT BY RAIL.



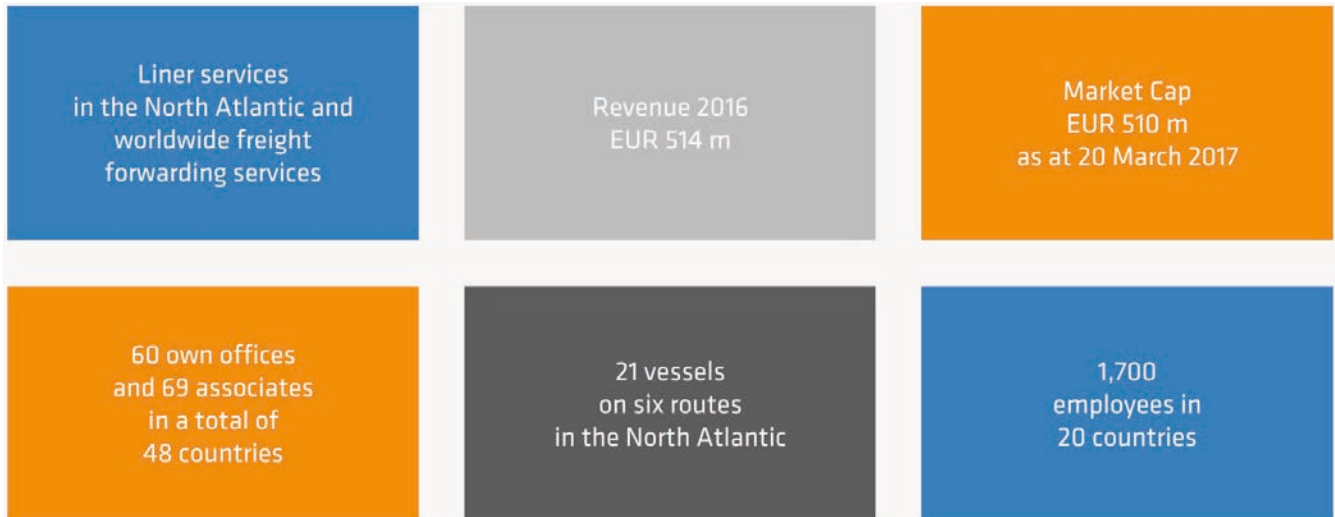




THE COMPANY

# EIMSKIP AT A GLANCE

Eimskip is a leading transportation company in the North Atlantic with connections to international markets and is specialized in worldwide freight forwarding services, with the vision of providing excellence in transportation solutions and services.



Eimskip is a niche player in transportation in the North Atlantic. It 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.

Eimskip's transportation services include shipping, terminal operations, ocean and land transport, air-freight, warehousing, freight forwarding and expert advice on shipping and logistics. Eimskip currently operates 60 offices in 20 countries and works with 69 associates in 40 countries, making a network of 48 countries in total. The Company employs around 1,700 people worldwide and operates 21 vessels sailing on six 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. Eimskip 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.

Eimskipafélag Íslands hf., the parent company, currently owns nine direct subsidiaries, all of which are fully owned by Eimskip with one exception. These direct subsidiaries further own 55 subsidiaries which are mostly 100%-owned entities.

# MISSION, VISION AND VALUES

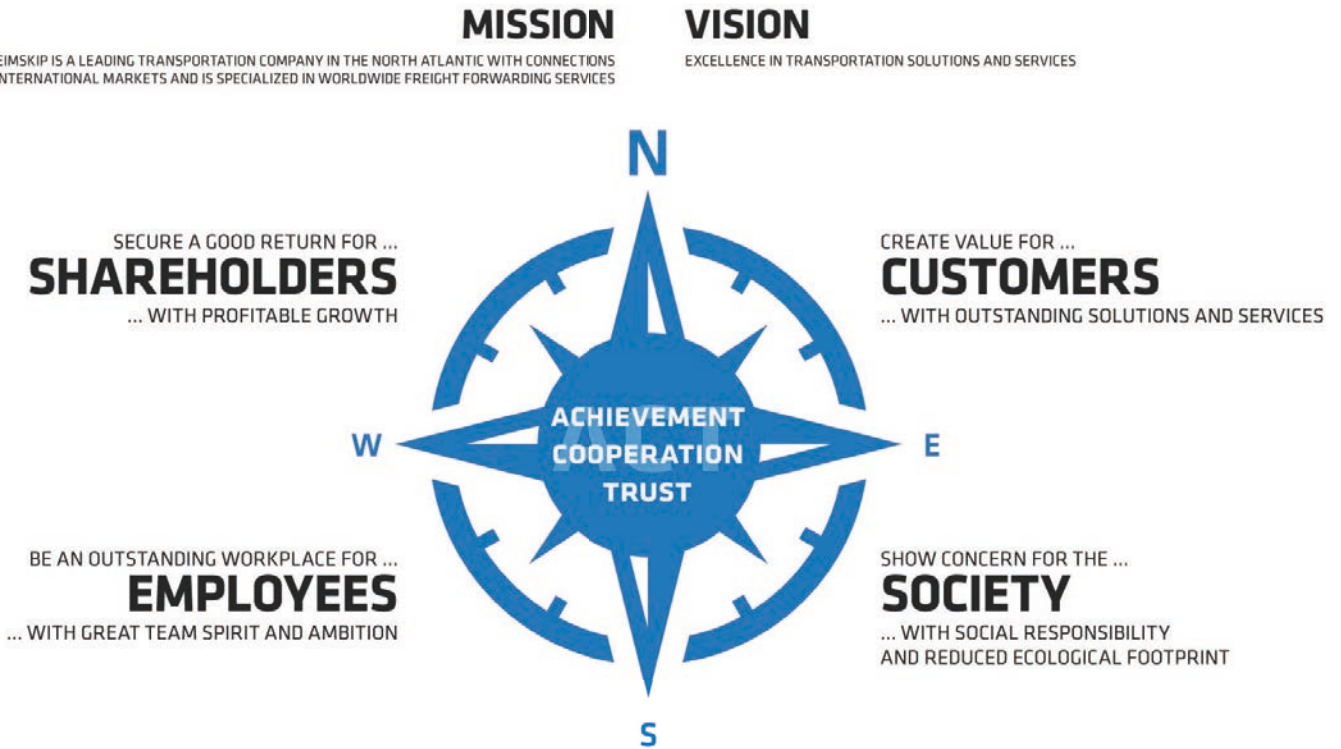
Eimskip traces its roots back to 17 January 1914, when H.F. Eimskipafélag Íslands was founded with about 15,000 shareholders, representing almost 17% of the Icelandic nation.

Eimskip is a leading transportation company in the North Atlantic with connections to international markets and is specialized in worldwide freight forwarding services, with the vision of providing excellence in transportation solutions and services.

## EIMSKIP'S OBLIGATIONS TOWARDS ITS STAKEHOLDERS ARE TO:

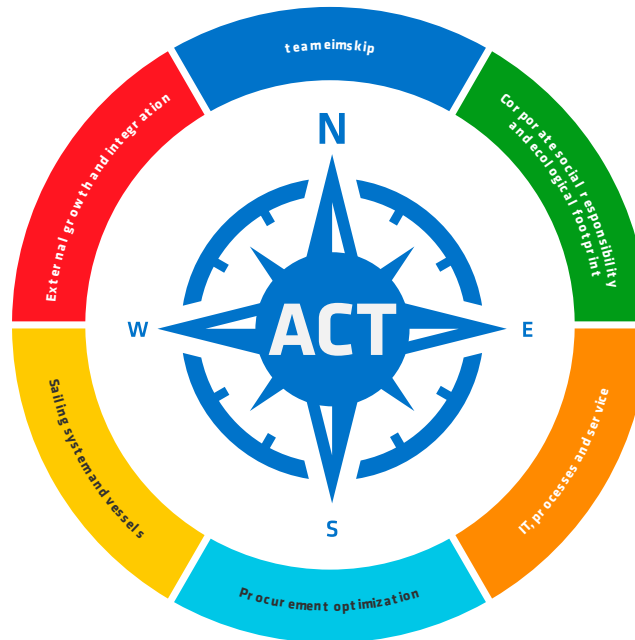
- Secure a good return for **SHAREHOLDERS** with profitable growth
- Create value for **CUSTOMERS** with outstanding solutions and services
- Be an outstanding workplace for **EMPLOYEES** with great team spirit and ambition
- Show concern for the **SOCIETY** with social responsibility and reduced ecological footprint

Eimskip's employees observe the Company's values in their daily work: **ACHIEVEMENT – COOPERATION – TRUST**



# STRATEGIC PRIORITIES 2017

Eimskip has defined its Strategic Priorities for the year 2017. These are the six different priorities presented in the following circle, covering different aspects of the Company's operations.



The Strategic Priorities relate to Eimskip's mission and vision and are based on the Company's values:

#### **FOLLOWING ARE EIMSKIP'S STRATEGIC PRIORITIES 2017:**

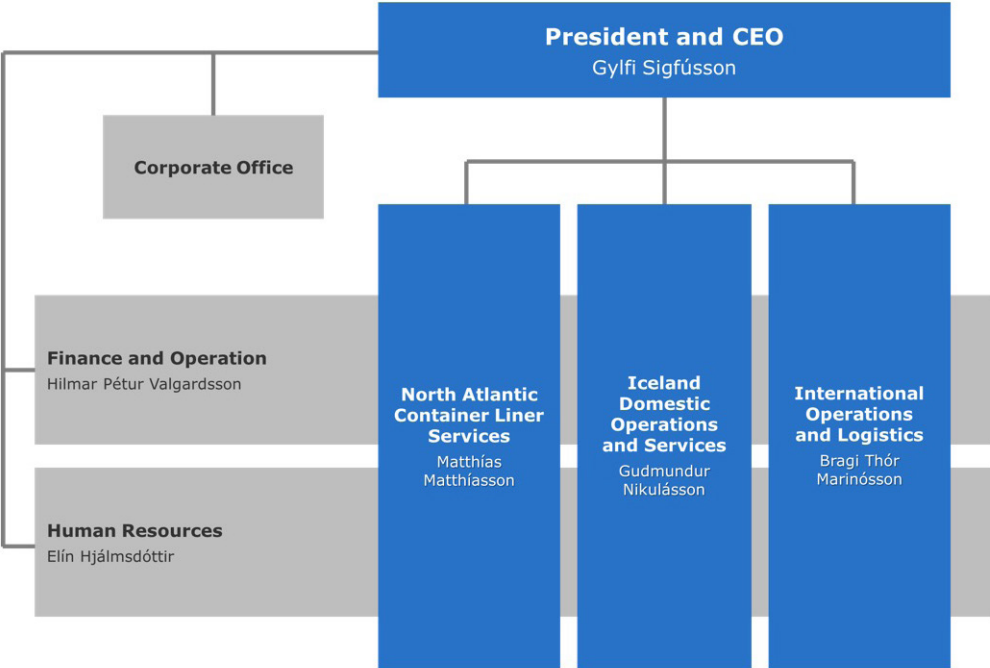
- TEAM EIMSKIP focuses on integrating Eimskip's global team
- CORPORATE SOCIAL RESPONSIBILITY AND ECOLOGICAL FOOTPRINT has main focus on implementing a formal CSR strategy for the Company and on measuring its ecological footprint
- IT, PROCESSES AND SERVICES focus on integrating IT and processes to optimize service excellence
- PROCUREMENT OPTIMIZATION focuses on implementing strategic procurement processes to reduce cost
- SAILING SYSTEM AND VESSELS has main focus on strengthening and optimizing the sailing system and on renewing the fleet and enlarging the size of vessels
- EXTERNAL GROWTH AND INTEGRATION focuses on continued execution of the Company's investment strategy for external growth and on integrating companies to ensure maximized synergy





# ORGANIZATION AND EXECUTIVE MANAGEMENT

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



**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 USA from 1996 to 2000 and Executive Vice President of Marketing and Operations at Tollvörugeymslan hf., now TVG-Zimsen ehf., from 1990 to 1996. He is a board member or CEO, or both, of various subsidiaries of Eimskipafélag Íslands hf. Gylfi is a board member of Iceland Chamber of Commerce, the American-Icelandic Chamber of Commerce, the Icelandic-Canadian Chamber of Commerce, the Greenland-Icelandic Chamber of Commerce and the Icelandic-Arctic Chamber of Commerce. He earned a Cand.Oecon. degree from the University of Iceland in 1990.



**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 a board member and Managing Director 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 Þór Marinósson**, Executive Vice President of International Operations and Logistics, was born in 1965. He has worked for Eimskip since 1993. Bragi has been Executive Vice President of International Operations and Logistics since June 2016, before which he was Executive Vice President of International Operations from 2008 to 2016 and 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.



**Elín Hjálmsdóttir**, Vice President of Human Resources, was born in 1972. She has worked for Eimskip since 2004. Elín was appointed Recruiting Manager in 2006 and in 2008 she became Senior Manager of Human Resources in Iceland. Following organizational changes in 2009 she became Senior Manager of Human Resources of Eimskip and has been Vice President of Human Resources since June 2016. Elín is a board member of Eimskip Ísland ehf., a subsidiary of Eimskipafélag Íslands hf., and an alternate member of the board of Kortathjónustan hf. Elín received a B.Sc. degree in Business Administration in 2002 and an MBA degree in 2005 from Reykjavík University.



**Matthías Matthíasson**, Vice President of North Atlantic Container Liner Services, was born in 1966. He worked for Eimskip from 1983 to 2004 and again from 2009. Matthías has been Vice President of North Atlantic Container Liner Services since June 2016, was Vice President of Transportation Services 2015 to 2016 and 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.



**Gudmundur Nikulásson**, Vice President of Iceland Domestic Operations and Services, was born in 1961. He has worked for Eimskip since 1997. Gudmundur has been Vice President of Iceland Domestic Operations and Services since June 2016. Before that he was Vice President of Iceland Domestic Operations from 2005 to 2016 and served as Senior Manager of Terminal Operations from 1997 to 2005. Gudmundur 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 Gudmundur 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.



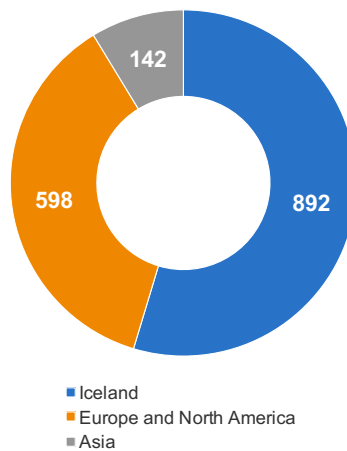


## EMPLOYEES

Eimskip's employees aim at excellence in their work. One of the main keys to achieve this is strong teamwork and cooperation, drawing the best from the Company's employees with their variety of backgrounds as regards education and experience.

Eimskip employed an average of 1,632 people in fixed positions in 19 countries in 2016.

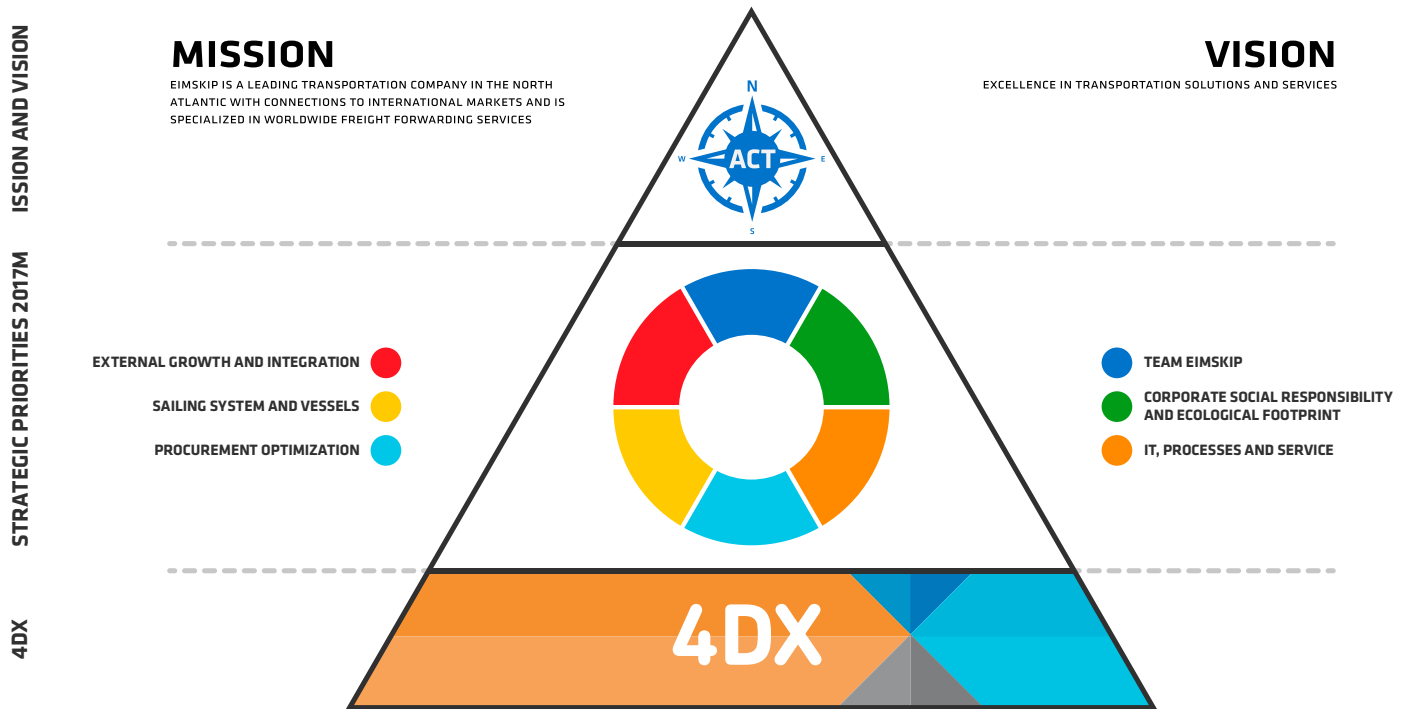
AVERAGE NUMBER OF EMPLOYEES 2016



With global growth, Eimskip's employees face both opportunities and challenges. The opportunities seem obvious in terms of the growth itself, but to meet them it is important to strengthen the team and the company culture even further with a clear strategy at hand.

Early in 2016, Eimskip launched Workplace as an additional tool for communication and information flow. Workplace is a solution by Facebook to connect employees in companies. It was launched in the Company worldwide simultaneously with a memorable launching day and good results. The way people communicate has changed with Workplace, a tool that 'turns ideas into action', makes the world smaller and gives every employee an opportunity to communicate with his or her colleagues worldwide in a quick, informal and efficient way. Given this access and flexibility, employees have the opportunity to strengthen their knowledge of the operation and easier access to their network of colleagues worldwide.

One of the Company's ways to harness team spirit and joint goal seeking involves using the methodology 'The 4 Disciplines of Execution' (4DX) which is a powerful tool for improvements. Eimskip's employees talk about the 'the paths to the mountaintop' which refers to the financial goal at the top of the mountain and the several ways to reach it. Each Strategic Priority can be described as one way of reaching the top of the mountain. The 4DX projects are based on the Strategic Priorities for each year. The 4DX methodology has proved its existence and the employees' participation and creativity has led to good results. This tool is now a part of the Company's daily operations and Eimskip focuses on further strengthening its use worldwide.



TEAM EIMSKIP is one of the Company's Strategic Priorities in 2017. This focuses on integrating Eimskip's global team and is built on a decision to harness the company culture in a more strategic way, with the emphasis on teamwork. Working with the company culture is a never-ending journey and the decision to build a stronger teamwork culture requires strategic short-term and long-term projects.

In a fast-moving world and against a background of rapid technical progress, the Company has a challenging task ahead in attracting the right knowledge and creative thinking which are essential elements in a growing company. Eimskip is well recognized in its field, with an engaged and ambitious group of employees that aims to maximize the potential results.



# BUSINESS SEGMENTS



# INTRODUCTION

Eimskip's operations are divided into two principal market segments: liner services in the North Atlantic and international forwarding services.

## LINER SERVICES

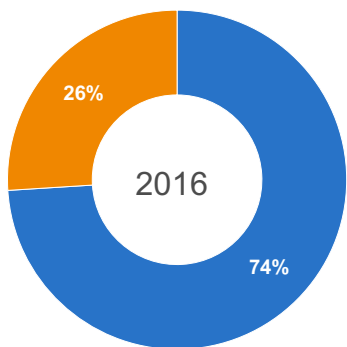
- The core of the Company's operations
- Eimskip's home market includes Newfoundland and Labrador, Iceland, the Faroe Islands and Norway
- 21 vessels currently in operation
- Terminal operations
- Chilled and cold storage facilities
- Warehousing
- Trucking and distribution
- Air-freight services
- Agency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

## FORWARDING SERVICES

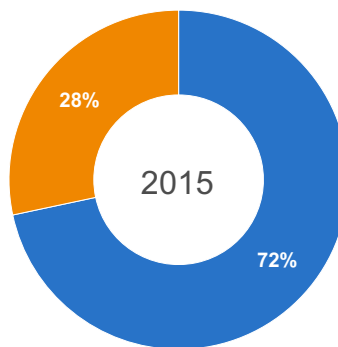
- Main focus on reefer forwarding but dry cargo forwarding is growing
- Efficient system based on a network of 60 own offices in 20 countries
- Strong cooperation with the large deep-sea lines and 69 associates in 40 countries

In 2016, 74.0% of Eimskip's revenues came from liner services and 26.0% from forwarding services. The split of EBITDA between segments in 2016 was 79.4% from liner services and 20.6% from forwarding services.

REVENUE BY SEGMENT

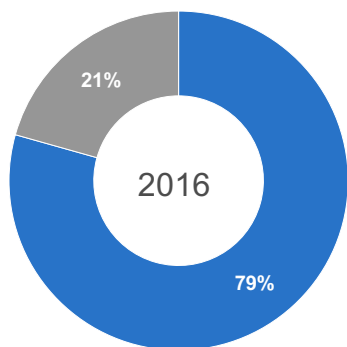


■ Liner services ■ Forwarding services

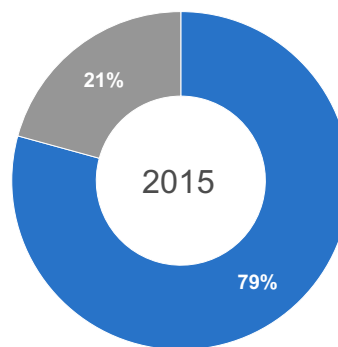


■ Liner services ■ Forwarding services

EBITDA BY SEGMENT

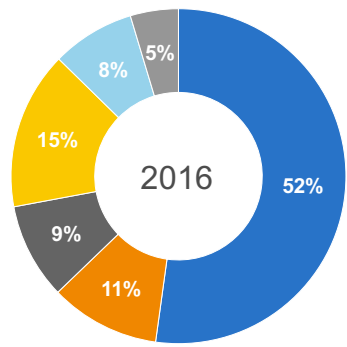


■ Liner services ■ Forwarding services

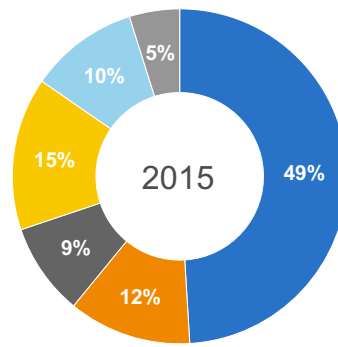


■ Liner services ■ Forwarding services

GEOGRAPHICAL SPLIT OF REVENUE



■ Iceland ■ Faroe Islands  
 ■ Norway ■ Europe  
 ■ Asia ■ Other



■ Iceland ■ Faroe Islands  
 ■ Norway ■ Europe  
 ■ Asia ■ Other

# LINER SERVICES

Eimskip's liner services are the core of the Company's operations. The liner services operate a dynamic sailing system in the North Atlantic, currently with 21 vessels in operation. The Company's home market includes Newfoundland and Labrador, Iceland, the Faroe Islands and Norway. The liner services also offer short-sea services in Europe and North America, Trans-Atlantic 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.

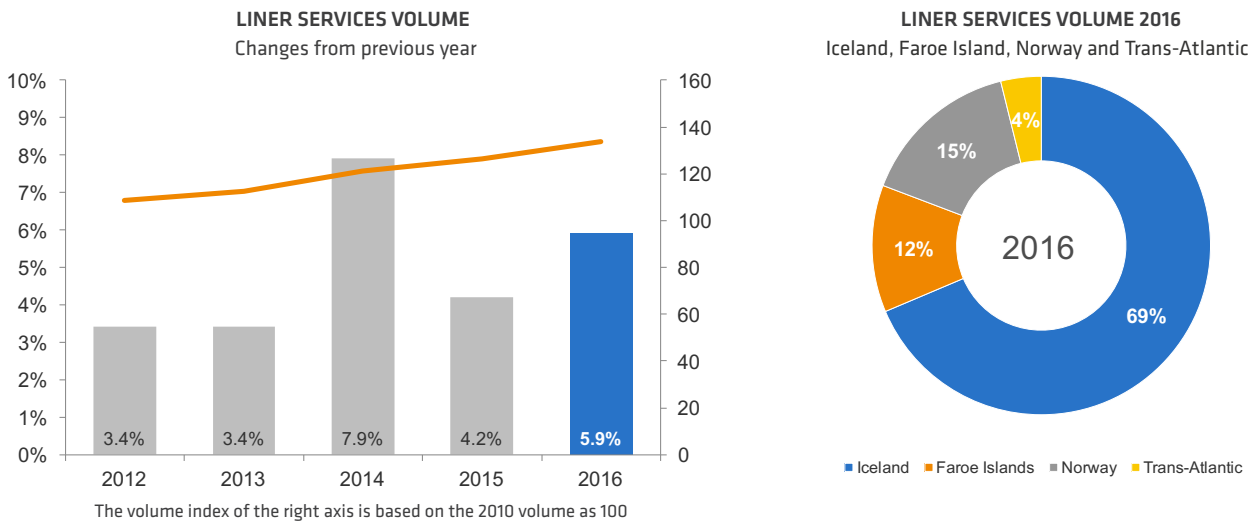
## KEY STATISTICS

In 2016, liner services accounted for 74.0% of the Company's revenue and 79.4% of its EBITDA.

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 volume 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 recent years the total allowable fish catch in the North Atlantic has been strong and is growing. Fish farming has also been strong in the Faroe Islands and Norway and is growing in Iceland.

Transported volume in Eimskip's liner services in 2016 grew by 5.9% from the previous year, mainly due to good growth related to Iceland and Norway.

As shown on the graph below on the left, transported volume in the Company's liner services has gradually been increasing in recent years. The volume index on the right axis is based on the 2010 volume as 100. The other graph shows that almost 70% of the liner services volumes are related to Iceland.



## 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 SYSTEM

Eimskip constantly re-evaluates its sailing system and vessel fleet with the aim of optimizing its operational efficiency. One of the Company's Strategic Priorities 2017 is SAILING SYSTEM AND VESSELS, where the main focus is on strengthening and optimizing the sailing system and on renewing the fleet and enlarging the size of vessels.

The most recent sailing system changes were made at the end of February 2017, increasing capacity to and from Europe and North America by 7-11%. A new Red Line was added to strengthen the services in Scandinavia and services to and from North America on the Green Line were increased with transshipments in Reykjavik and more frequency and additional capacity. Weekly coastal services are now offered to support increasing activities in Iceland, served by the Gray Line which also serves the Faroe Islands and the UK.

**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 Iceland. The vessels serving on the Yellow Line are the Lagarfoss and Bakkafoss.

**The Red Line** offers weekly services from Iceland and the Faroe Islands to Denmark, Poland, Norway and Sweden and then back to Iceland. The vessels serving on the Red Line are the Ice Star and Ice Moon.

**The Gray Line** offers weekly services between Iceland, Faroe Islands, Scotland and England and then back to Iceland. The route calls several ports around the coast of Iceland. The vessels serving on the Gray Line are the Blikur and Lómur.

**The Green Line** offers direct services from Iceland to the east coast of the United States, Nova Scotia and Newfoundland and Labrador and then back to Iceland. The Skógafoss and Reykjafoss serve on the Green Line.

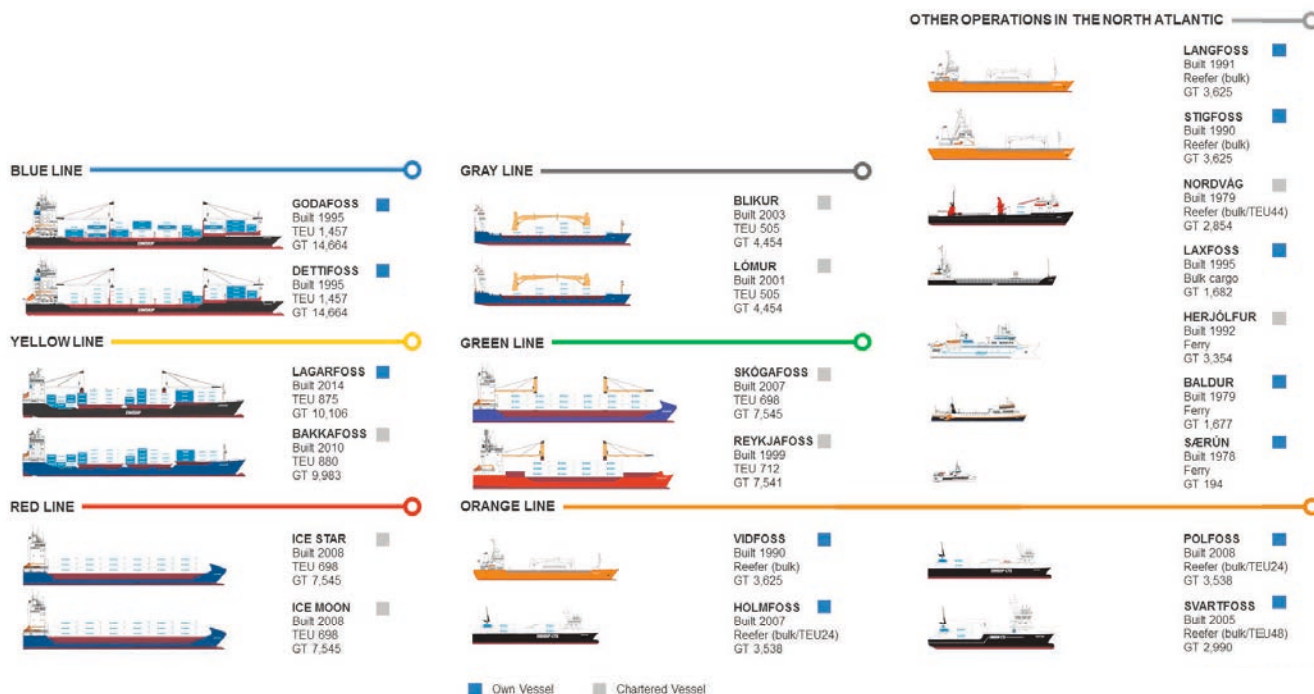
**The Orange Line** offers weekly services from Murmansk in Russia, down the Norwegian coast on its way to the Netherlands, England, Scotland and then back to Norway. The vessels serving on the Orange line are the Vidfoss, Holmfoss, Polfoss and Svartfoss.

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 by the needs of the shipper and the consignee each time. 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

Eimskip currently operates 21 vessels in the North Atlantic, of which twelve are own vessels and nine are chartered. Fourteen are used in scheduled liner services on six different sailing routes, thereof ten container vessels and four reefer vessels. In addition, three reefer vessels offer spot services, one is in bulk services and three are ferries operated in Iceland. The vessels are highly competitive in terms of their size, cranes, reefer plugs, low draft and maneuvering capabilities to enter narrow ports.



## 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.

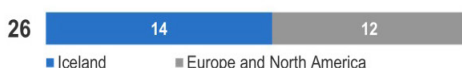
Eimskip owns or operates 14 chilled and cold storage facilities in five countries: five in Iceland, three in China and two in each of the Faroe Islands, Norway and Newfoundland and Labrador. Eimskip also operates a total of 26 warehouses for dry cargo in eight countries: 14 in Iceland, three each in USA and the Faroe Islands, two in the UK and one each in Norway, Sweden, Denmark and the Netherlands.

The Company's container fleet currently consists of around 24,900 TEU (twenty-foot equivalent unit). Trucking and distribution services are operated in Iceland, the Faroe Islands, Denmark, the Netherlands and USA. The Company operates 424 container cranes and forklifts and 738 trucks, vans and trailers.

### Chilled and cold storages



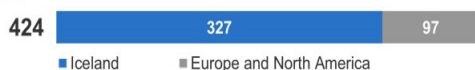
### Warehouses



### TEU



### Container cranes and forklifts



### Trucks, vans and trailers



## COOPERATION AND INVESTMENTS

### ROYAL ARCTIC LINE

Eimskip and Royal Arctic Line in Greenland have evaluated their potential cooperation regarding building of three container vessels and sharing capacity. The two companies signed an agreement for the cooperation in January 2017, subject to notification to and confirmation from the relevant competition authorities if applicable. At the same time, Eimskip signed a contract with a shipyard in China on building two 2,150 TEU ice class Polar Code container vessels. These vessels will be built in line with environmental standards and are designed to be fuel efficient. The contract price of each vessel is approximately USD 32 million and the vessels are expected to be delivered in 2019. Royal Arctic Line also signed a contract to build one similar vessel with the same shipyard.

### NOR LINES

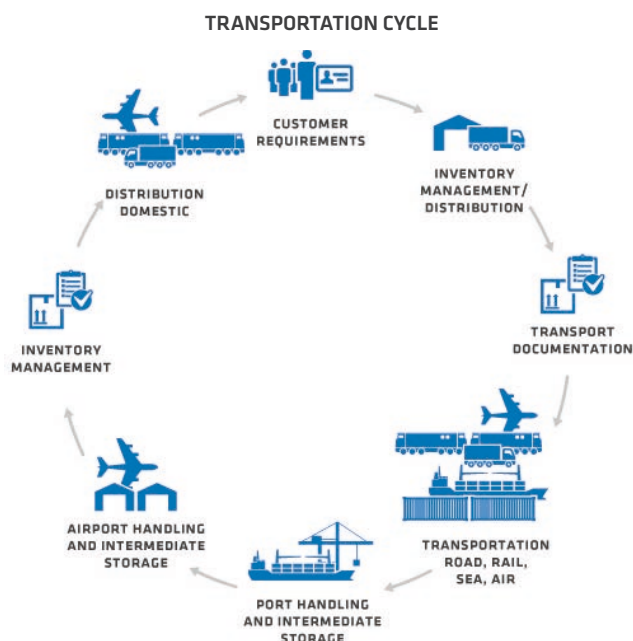
Eimskip signed an agreement to acquire the Norwegian shipping and logistics company Nor Lines AS in November 2016. The company serves Norway with five vessels, trucking services and terminals. Eimskip is waiting for the final conclusion of the Norwegian Competition Authority, but the authority issued a notice on an objection regarding the acquisition in February 2017.

# FORWARDING SERVICES

Eimskip's forwarding services are a network of the Company's own offices and associates worldwide. They include international reefer forwarding and dry cargo forwarding.

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 by utilizing its global network and is specialized in transportation of temperature controlled cargo where seafood products play an important role. The Company also offers forwarding of dry cargo through various logistics solutions worldwide.

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.



**KEY STATISTICS**

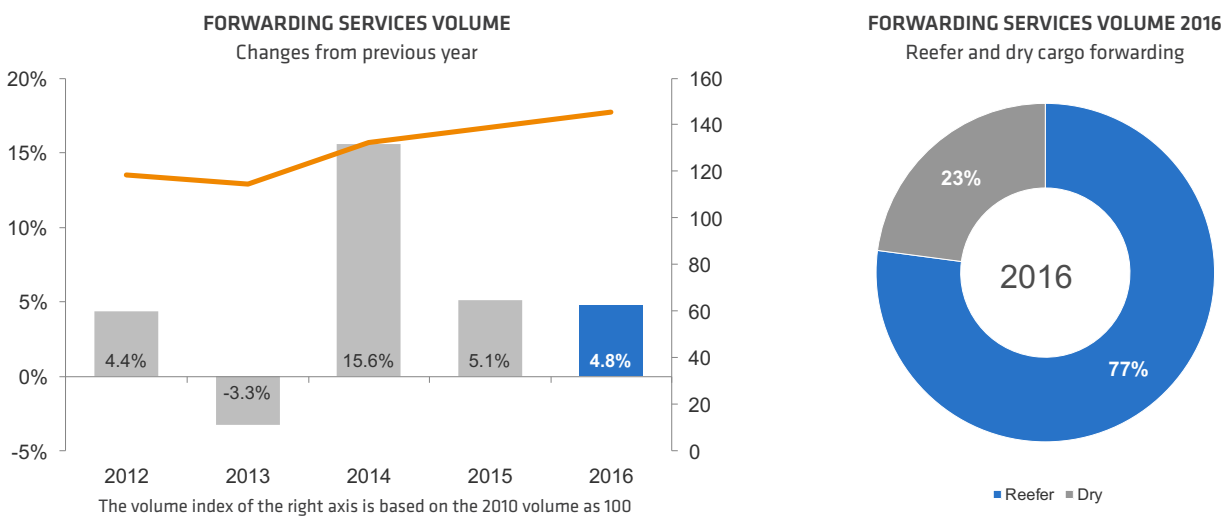
Eimskip started its forwarding services in Asia by opening an office in Qingdao, China, in 2004, starting out with 4,000 TEU. The Company currently operates a total of seven offices in Asia. The forwarding services of the group handled a total of 154,000 TEU in 2016, up by 4.8% compared to 2015. East-West trades are the largest, followed by the Intra-Asian trade.

Forwarding services accounted for 26.0% of the Company's revenue in 2016 and 20.6% of its EBITDA.

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 cargo forwarding due to reefer cargo being less dependent on economic fluctuations, since consumption of food products is usually more stable than other products. Other perishable cargoes are meat, fruit and vegetables.

Transported volume in Eimskip's forwarding services in 2016, including reefer forwarding and dry cargo forwarding, increased by 4.8% from the previous year. The growth can mainly be explained by acquired companies and increased volume in dry cargo.

As on the following graph on the left below, transported volume in the Company's forwarding services has gradually been increasing in recent years. The volume index on the right axis is based on the 2010 volume as 100.



**GLOBAL NETWORK**

Eimskip's global network currently consists of 60 offices of its own and 69 associates in a total of 48 countries in Europe, America, Asia and Africa.



## NEW GROUP COMPANIES

### EXTRACO AND MARECO

Eimskip acquired 90% of the forwarding company Extraco in Rotterdam in October 2016. In January 2017, Eimskip announced the acquisition of an 80% share in Mareco, headquartered in Antwerp, Belgium.

The companies specialize in reefer freight forwarding services. The total investment for the two companies was approximately EUR 29 million, with estimated annual revenue of EUR 80 million and EBITDA margins of about 6-8%. These two accretive acquisitions are strategic, both of the companies operate in Eimskip's existing markets, each has a clear niche and will provide additional benefits to the Company's existing forwarding services. Each forwarding company brings specialized expertise to Eimskip's forwarding services and best practices can be shared. These asset-light companies add a great balance and diversification to the group.

# CUSTOMER SERVICE

## 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.

## SERVICE POLICY

Eimskip has always maintained a 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.

## 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 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.

One of Eimskip's Strategic Priorities in 2017 is IT, PROCESSES AND SERVICES, where the main focus is on integrating IT and processes to optimize service excellence.

The ePORT, the Company's online service web for customers, is constantly being developed, updated and improved. The ePORT enables customers to access invoices and necessary documents online, monitor their orders and call up a simple overview of their transport activities.

Eimskip's service portfolio also includes the eBOX, a clear and simple, user-friendly solution for smaller shipments from Europe and North America to Iceland. Through the eBOX, 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.







An aerial photograph of a vast, rugged landscape. The terrain is a mix of dark, rocky mountains and lighter, brownish hills, with numerous patches of snow scattered across the slopes and in the valleys. A wide, winding river or glacial stream flows through the center of the landscape, its water appearing a pale, milky blue. The sky is a clear, bright blue with a few wispy clouds near the horizon. The overall scene conveys a sense of natural grandeur and isolation.

FINANCIAL  
PERFORMANCE

# KEY FINANCIAL HIGHLIGHTS

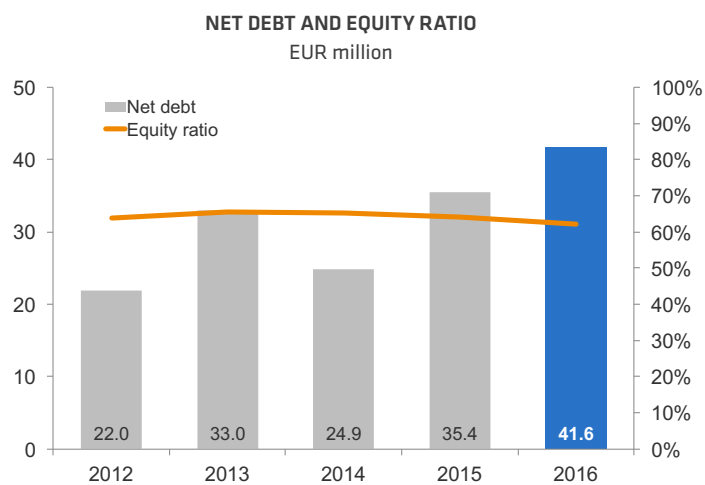
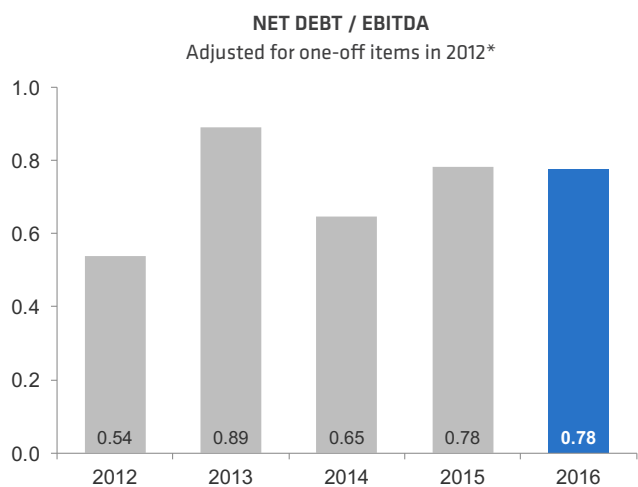
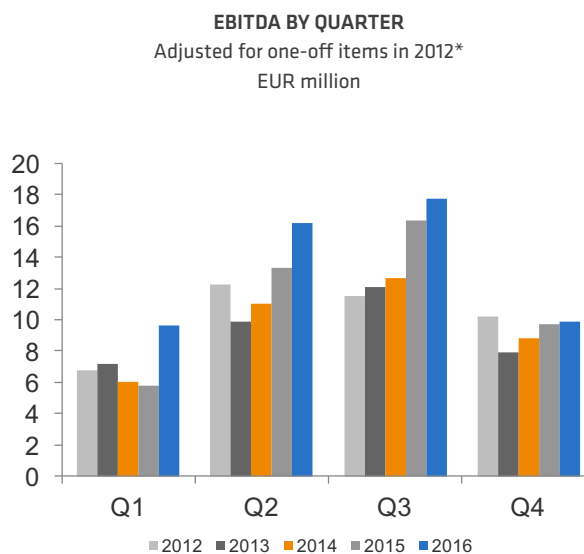
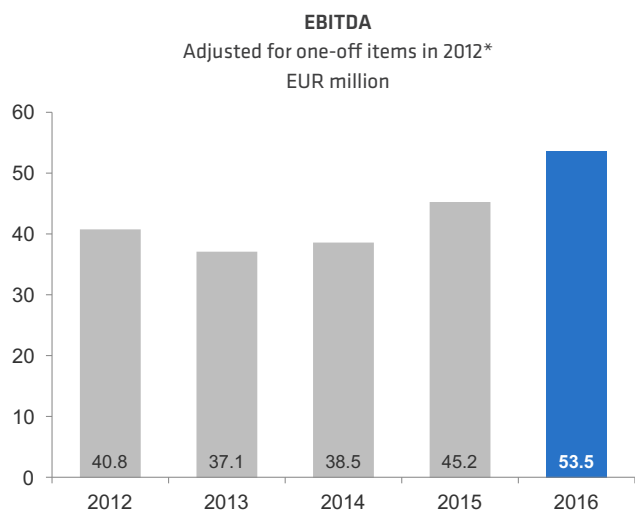
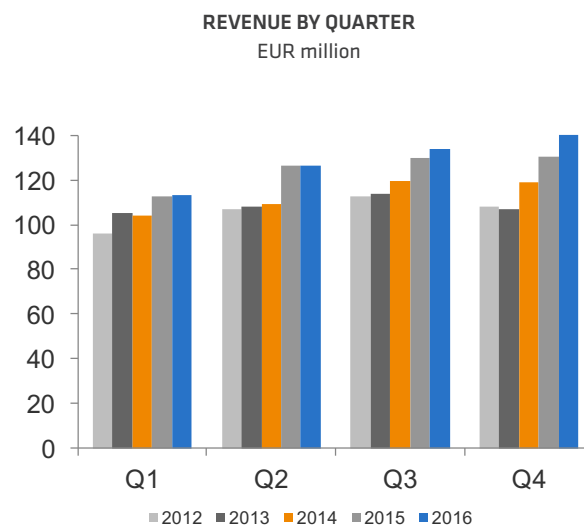
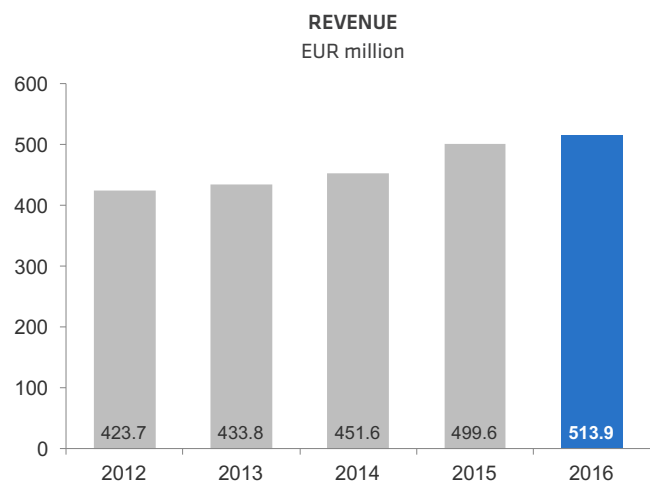
## KEY FIGURES

CONSOLIDATED INCOME STATEMENT	2016	2015	CHANGE	2014	2013	2012
Revenue	513,922	499,581	2.9%	451,555	433,824	423,653
Expenses	460,447	454,384	1.3%	413,013	396,770	387,485
<b>Operating profit - EBITDA</b>	<b>53,475</b>	<b>45,197</b>	<b>18.3%</b>	<b>38,542</b>	<b>37,054</b>	<b>36,168</b>
Depreciation and amortization	( 28,077)	( 24,729)	(13.5%)	( 23,195)	( 21,143)	( 22,436)
<b>Results from operating activities - EBIT</b>	<b>25,398</b>	<b>20,468</b>	<b>24.1%</b>	<b>15,347</b>	<b>15,911</b>	<b>13,732</b>
Net finance (expense) income	( 345)	419	-	591	( 3,234)	( 2,983)
Share of earnings of associated companies	210	331	(36.6%)	229	2	0
<b>Net earnings before income tax</b>	<b>25,263</b>	<b>21,218</b>	<b>19.1%</b>	<b>16,167</b>	<b>12,679</b>	<b>10,749</b>
Income tax	( 3,368)	( 3,416)	1.4%	( 2,560)	( 1,862)	1,982
<b>Net earnings for the year</b>	<b>21,895</b>	<b>17,802</b>	<b>23.0%</b>	<b>13,607</b>	<b>10,817</b>	<b>12,731</b>
Adjusted for one-off items in 2012:						
Earnings per share in EUR	0.1148	0.0929	23.5%	0.0722	0.0554	0.0645
Revenue change	2.9%	10.6%		4.1%	2.4%	12.0%
EBITDA ratio	10.4%	9.0%		8.5%	8.5%	9.6%
EBIT ratio	4.9%	4.1%		3.4%	3.7%	4.3%
Net debt / EBITDA	0.78	0.78		0.65	0.89	0.54

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	31.12.2016	31.12.2015	CHANGE	31.12.2014	31.12.2013	31.12.2012
<b>Assets</b>	<b>391,691</b>	<b>355,157</b>	<b>10.3%</b>	<b>332,040</b>	<b>314,365</b>	<b>313,281</b>
Non-current assets	253,256	233,280	8.6%	214,278	216,096	209,723
Current assets	138,435	121,877	13.6%	117,762	98,269	103,558
<b>Equity</b>	<b>243,775</b>	<b>228,124</b>	<b>6.9%</b>	<b>216,472</b>	<b>205,771</b>	<b>199,599</b>
<b>Liabilities</b>	<b>147,916</b>	<b>127,033</b>	<b>16.4%</b>	<b>115,568</b>	<b>108,594</b>	<b>113,682</b>
Interest-bearing debt	81,149	71,401	13.7%	64,432	59,398	59,254
Net debt	41,606	35,418	17.5%	24,893	33,028	21,950
Tangible assets / Total assets	89.4%	92.6%		94.2%	93.5%	93.7%
Equity ratio	62.2%	64.2%		65.2%	65.5%	63.7%

CONSOLIDATED STATEMENT OF CASH FLOWS	2016	2015	CHANGE	2014	2013	2012
Net cash from operating activities	48,667	37,357	30.3%	31,603	20,537	36,872
Net cash used in investing activities	( 39,907)	( 35,206)	(13.4%)	( 18,311)	( 26,601)	( 39,188)
Net cash used in financing activities	( 4,761)	( 5,173)	8.0%	( 572)	( 3,558)	( 4,369)
<b>Changes in cash and cash equivalents</b>	<b>3,999</b>	<b>( 3,022)</b>	<b>-</b>	<b>12,720</b>	<b>( 9,622)</b>	<b>( 6,685)</b>
Effects of exchange rate fluctuations on cash held	(439)	( 534)	17.8%	449	( 1,312)	472
<b>Cash and cash equivalents at year-end</b>	<b>39,543</b>	<b>35,983</b>	<b>9.9%</b>	<b>39,539</b>	<b>26,370</b>	<b>37,304</b>

## KEY RATIOS



\* In the graphs above, EBITDA has been adjusted for one-off items in 2012. EBITDA for the third quarter was increased by EUR 0.7 million and by EUR 1.0 million for the 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	2016	2015	CHANGE
Revenue	513.9	499.6	2.9%
EBITDA	53.5	45.2	18.3%
EBIT	25.4	20.5	24.1%
Net earnings	21.9	17.8	23.0%
CAPEX	34.4	48.3	( 28.8%)
Net cash from operating activities	48.7	37.4	30.3%
Total assets	391.7	355.2	10.3%
Equity ratio	62.2%	64.2%	

### TRANSPORTED VOLUME

There was a 5.9% growth in the Company's North Atlantic liner services from 2015 to 2016, mainly due to good growth related to Iceland and Norway. Transported volume in the Company's forwarding services grew by 4.8% from the previous year.

### OPERATIONAL RESULTS

Eimskip's net earnings amounted to EUR 21.9 million in 2016, increasing by EUR 4.1 million, or 23.0%, from 2015.

Revenue amounted to EUR 513.9 million, compared to EUR 499.6 million in 2015. Normalized revenue growth was 3.3%, taking into account a EUR 2.0 million gain on disposal of a vessel under construction which was included in the 2015 revenue. Total revenue for the year 2016 was affected by lower freight rates in the international freight markets. Of the 2016 revenue, 74.0% came from the liner services segment while 26.0% were related to forwarding services.

Expenses for the year amounted to EUR 460.4 million, up by 1.3%. Thereof, salaries and related expenses amounted to EUR 119.8 million, up by 24.7%, mainly affected by general wage increase in Iceland and currency exchange difference. Cost related to merger and acquisition projects was EUR 1.1 million in 2016.

Operating profit, or EBITDA, amounted to EUR 53.5 million compared to EUR 45.2 million in 2015, up by 18.3%, but normalized EBITDA growth was 23.7%. The EBITDA ratio for the year was 10.4% compared to 9.0% in 2015.

### FINANCIAL POSITION AND CAPITAL EXPENDITURE

Eimskip's balance sheet at year-end 2016 remained solid, with assets amounting to EUR 391.7 million and 62.2% equity ratio. Interest-bearing debt amounted to EUR 81.1 million at year-end, up by EUR 9.7 million, and net debt was EUR 41.6 million, up by EUR 6.2 million from the previous year.

Cash flow remained strong and net cash from operating activities amounted to EUR 48.7 million and grew by EUR 11.3 million or 30.3% from the previous year. Dividend in the amount of EUR 8.6 million, or ISK 1,213.2 million, was paid to shareholders in April 2016. Cash and cash equivalents were in the amount of EUR 39.5 million at year-end.

Total capital expenditure, or CAPEX, amounted to EUR 34.4 million in 2016 and the largest investments were containers and a harbor crane. For comparison, CAPEX amounted to EUR 48.3 million in 2015. Net acquisitions in new companies amounted to EUR 11.3 million.

An aerial photograph of a volcanic landscape. In the upper left, a mountain range is partially covered in snow. Below it, a wide, dark, sandy valley stretches across the middle ground. The foreground and middle ground are dominated by rolling hills and ridges covered in vibrant green moss or lichen, contrasting with the dark volcanic rock. The sky is a clear, pale blue. The overall scene is rugged and dramatic.

# INVESTORS



# CORPORATE GOVERNANCE

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.

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

The Board of Directors approved an update of the Corporate Governance statement for the Company on 23 February 2017. 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 2016.

The Corporate Governance guidelines, along with the Company's Articles of Association and rules for issuers of securities listed at Nasdaq Iceland, make up the framework for the Corporate Governance practices for Eimskip.

## **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 the initiative on 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 Hrund Rudolfsdóttir, Chairman, Richard Winston Mark d'Abo and Marc Jason Smernoff.

## **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 follows the policies and instructions laid down by the Board. The CEO must at all times conduct his work with integrity and take account of the Company's interests. Day-to-day operations do not include matters which are unusual or of great significance. The CEO shall make sure that the Company's accounts are kept in accordance with law and practice and that the Company's assets are kept in a secure manner. The CEO is 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 under 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 and Logistics, Human Resources, North Atlantic Container Liner Services and Iceland Domestic Operations and Services. All the executives have extensive experience within the Company. Further information on the Executive Management is to be found under Organization and Executive Management.

## **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 minimize 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 under Risk Management and Risk Factors.

## **CORPORATE SOCIAL RESPONSIBILITY**

For over a century, Eimskip has connected Iceland and the rest of the world with its transportation services. The Company has played an important role in Iceland's history; it realizes its responsibility and is committed to maintaining its presence and services in the North Atlantic, where reliable transport is crucial to the economy and prosperity of the region. To attain this, Eimskip strives to provide the most efficient and sustainable transportation options combined with outstanding services to customers, while being profitable for shareholders and responsible towards the society, environment and the workforce.

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

Further information on Eimskip's social responsibility and the environment is to be found under Corporate Social Responsibility.



# SHAREHOLDER INFORMATION

## 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 806 shareholders at the end of 2016.

## 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 2016. 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 13.74%.

The 20 largest shareholders held 82.07% of the total shares at year-end 2016.

## 20 LARGEST SHAREHOLDERS

List of 20 largest shareholders as at 31 December 2016

SHAREHOLDERS	SHARES	%
1 Yucaipa American Alliance Fund II, LP	30,504,030	15.25%
2 Lífeyrissjóður verzlunarmanna	27,485,070	13.74%
3 Yucaipa American Alliance (Parallel)	20,095,970	10.05%
4 Gildi - lífeyrissjóður	18,846,139	9.42%
5 Lífeyrissj. starfsm. rík. A-deild	11,200,000	5.60%
6 Stapi lífeyrissjóður	10,092,555	5.05%
7 J.P. Morgan Clearing Corporation	7,672,360	3.84%
8 Sameinadi lífeyrissjóðurinn	5,379,852	2.69%
9 Sjóvá-Almennar tryggingar hf.	5,017,349	2.51%
10 Lífeyrissj. starfsm. rík. B-deild	4,080,000	2.04%
11 Söfnunarsjóður lífeyrisréttinda	3,102,823	1.55%
12 Festa - lífeyrissjóður	2,937,005	1.47%
13 Almenni lífeyrissjóðurinn	2,911,558	1.46%
14 IS Hlutabréfasjóðurinn	2,851,413	1.43%
15 Global Macro Portfolio	2,775,070	1.39%
16 Global Macro Absolute Return Ad	2,347,670	1.17%
17 Birta lífeyrissjóður	2,060,799	1.03%
18 A.C.S safnreikningur I	2,040,000	1.02%
19 Brú Lífeyrissjóður starfs sveit	1,515,982	0.76%
20 Íslandsbanki hf.	1,220,984	0.61%
20 largest shareholders total	164,136,629	82.07%
786 other shareholders total	22,502,601	11.25%
Eimskipafélag Íslands hf.	13,360,770	6.68%
806 shareholders total	200,000,000	100.00%

## DISTRIBUTION OF SHARES

Distribution of shares as at 31 December 2016

SHAREHOLDING	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1-5,000	564	69.98%	1,270,828	0.64%
5,001-10,000	57	7.07%	468,866	0.23%
10,001-100,000	128	15.88%	3,966,055	1.98%
100,001-200,000	10	1.24%	1,305,137	0.65%
200,001-1,000,000	23	2.85%	11,168,384	5.58%
1,000,001-10,000,000	18	2.23%	50,236,196	25.12%
10,000,001 +	6	0.74%	118,223,764	59.11%
Total without treasury shares	806	100.00%	186,639,230	93.32%
Treasury shares		0.00%	13,360,770	6.68%
Issued shares total	806	100.00%	200,000,000	100.00%

SHARE PRICES 2016 TO 2017



#### 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 in 2016 and 2017, there have been some fluctuations during the period but the share price has been rising. The closing price of the year 2016 was ISK 322.50 which represented Eimskip's market capitalization based on outstanding shares at year-end 2016 in the amount of ISK 60.2 billion, the equivalent of EUR 505.3 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 20 March 2017 was ISK 318.50 per share with market capitalization based on outstanding shares in the amount of ISK 59.4 billion, equal to EUR 510.2 million.

#### DIVIDEND POLICY

The policy of Eimskipafélag Íslands hf. is to pay annual dividend that equals an amount in the range of 10-65% 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.

Eimskip paid dividend in the amount of ISK 6.50 per share on 14 April 2016. The total dividend payment amounted to ISK 1,213.2 million, which represented 48.4% of net earnings for the year 2015. The paid dividend was equivalent to EUR 8.6 million.

The Board of Directors proposed to the Annual General Meeting 2017 a dividend payment of ISK 6.80 per share in 2017, amounting to a total of ISK 1,269.1 million or EUR 11.0 million, which represents approximately 50.0% of net earnings for the year 2016.

#### 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 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.

# INVESTMENT STRATEGY

Eimskip's strategy is to use its strong financial position for external growth by making accretive acquisitions that create synergies, strengthening the Company's performance and increase shareholder value. The plan is to issue additional debt for the investments, increasing the leverage of the company to more normal levels, still maintaining a strong balance sheet.

Eimskip's Board of Directors and management have in recent years spent time on evaluating potential investment projects in the Company's search for opportunities to grow and to strengthen its current position.

One of the Company's Strategic Priorities 2017 is EXTERNAL GROWTH AND INTEGRATION, where the main focus is on continued execution of the Company's investment strategy for external growth and on integrating new companies to ensure maximized synergy.

Eimskip will continue to evaluate potential investment projects and is currently working on several potential acquisitions in its core business. Evaluation of vessel investments will also continue on an ongoing basis and the Company seeks to take advantage of attractive opportunities in the second hand vessel market.

In 2015 and 2016, Eimskip entered into partnerships, established and invested in several companies and infrastructure projects which have played an important role in further strengthening the Company's services. Synergy has followed all of the acquisitions and the new companies have been performing in line with the Company's expectations.

## INVESTMENTS AND PARTNERSHIPS IN 2015

- **Jac. Meisner**  
Acquisition of a forwarding company in Rotterdam.
- **Eimskip & KCie GmbH & Co. KG**  
Joint Venture in ship management and trading established in Hamburg.
- **Warehouse operation in Denmark**  
Eimskip took over a 21,500 m<sup>2</sup> warehouse operation in Århus.
- **St. Anthony Cold Storage Ltd.**  
Acquisition of a cold storage operation in Newfoundland and Labrador.
- **Cargocan Agency Ltd.**  
Acquisition of a leading forwarder in St. John's, Newfoundland and Labrador.
- **Seatours (Sæferdir ehf.)**  
Acquisition of a ferry-operating company in Stykkishólmur on Iceland's west coast.
- **Infrastructure investments in Iceland**  
A new 10,000-ton cold storage facility built in Hafnarfjörður. Two new Gottwald harbor cranes, one for Reydarfjörður and another for Grundartangi, and 22,410 m<sup>2</sup> of land at Grundartangi to prepare for the area's future development.

## INVESTMENTS AND PARTNERSHIPS IN 2016 AND THE FIRST QUARTER OF 2017

- **Royal Arctic Line**  
Cooperation agreement with Royal Arctic Line in January 2017. A contract signed with a shipyard in China on building two 2,150 TEU ice class Polar Code container vessels for Eimskip. Royal Arctic line signed contract to build one vessel with the same shipyard and design. Expected delivery of the three vessels is in 2019.
- **Extraco**  
Acquisition of a 90% share in a specialized forwarding company in Rotterdam in October 2016.
- **Mareco**  
Acquisition of an 80% share in a specialized reefer logistics company in Antwerp in January 2017.
- **Nor Lines**  
Eimskip signed an agreement to acquire the Norwegian shipping and logistics company Nor Lines in November 2016 and is waiting for the final conclusion of the Norwegian Competition Authority. The authority issued a notice on an objection regarding the acquisition in February 2017.

# RISK MANAGEMENT AND RISK FACTORS

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

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

The Company goes through a detailed strategic and budgeting process each year and a strategy and budget report is prepared. It has also defined its strategic priorities for the year 2017, as described under Strategic Priorities 2017. The Board of Directors approves the Company's strategy and budget each year. Deviations from the strategy and budget are carefully monitored on a monthly basis.

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

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 the Company's website.

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.

## **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).

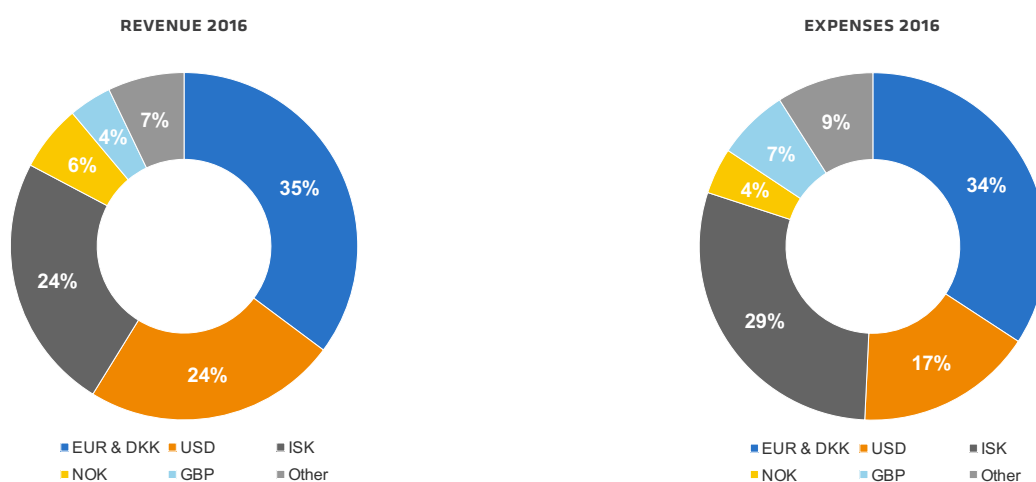
Some of the financial risk factors are addressed as follows.

### 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 Eimskip Ísland ehf., where the functional currency is the EUR.

As can be seen from the graphs below, 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

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 and stable 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 96.6 million at the end of 2016, which represents 18.8% 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 5.2% of Eimskip's expenses in 2016. 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.

Majority of Eimskip's sailing routes lie through Emission Control Areas (ECA). Within ECA shipping companies are obliged to use fuel with a sulphur content no higher than 0.1%, which is more expensive than fuel with higher sulphur content. In order to compensate for the higher cost, the Company charges its customers a Low Sulphur Surcharge (LSS).

An aerial photograph of a volcanic landscape. In the foreground, a large, conical volcano covered in vibrant green moss or lichen sits atop a dark, sandy volcanic ash field. A dark, winding river flows through the valley to the right. The background shows a vast, rugged landscape of rolling hills and mountains, some with patches of snow or ice, under a blue sky with scattered white clouds.

CORPORATE SOCIAL  
RESPONSIBILITY



## SOCIETY

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 and fight for its independence. It realizes its responsibility and is committed to maintaining its presence and services.

The Company operates an efficient and responsible transportation system in the North Atlantic and offers worldwide forwarding services. Its mission is to be a leading transportation company in the North Atlantic with connections to international markets and to be specialized in worldwide freight forwarding services, with the vision of providing excellence in transportation solutions and services.

To attain this, Eimskip strives to provide its customers with the most efficient and sustainable transportation solutions combined with outstanding services, while securing a good return for its shareholders and being responsible towards its employees and the society, including the environment.

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

Eimskip defines the society as one of its stakeholders. The others are the Company's shareholders, customers and employees. Corporate social responsibility plays a large role in its operations, of which the environmental matters are important. Eimskip's values are Achievement, Cooperation and Trust. These are the employees' guiding principles in the Company's endeavor to work for a better society, preserve and protect the environment and to be a role model when it comes to responsibility and trust.

Eimskip signed the Reykjavík Declaration on Climate Issues in November 2015 regarding measures to tackle climate change. In January 2017 Eimskip was one of many companies that signed a joint declaration on responsible tourism, but the Company currently operates three ferries in Iceland.



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 2016. 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 about 60,000 helmets to children who are now aged between 6 and 19. The project is symbolic for Eimskip's values and commitment to a better and safer society.

In 2016, Eimskip continued aligning the Company's corporate social responsibility with its business effort and the main focus of the year was on a reduced ecological footprint. One of the Company's Strategic Priorities 2017 is CORPORATE SOCIAL RESPONSIBILITY AND ECOLOGICAL FOOTPRINT, where the main focus is on implementing a formal CSR strategy for the company and on measuring its ecological footprint.

## ENVIRONMENT

### DECLARATION ON CLIMATE ISSUES

More than ever before, people now realize the negative impact that the use of fossil fuels has on nature. Its 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. The agreement includes reducing greenhouse gas emission, reducing waste and monitoring the results of the measures and regularly publicizing the information.

Eimskip will continue focusing on reduced emissions and improved waste disposal and at the same time increase the transparency of its ecological footprint throughout the supply chain. The focus in 2017 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 reliable and transparent information on the status. In January 2017 Eimskip signed a contract with a shipyard in China on building two 2,150 TEU ice class Polar Code container vessels with expected delivery in 2019. These vessels will be built in line with environmental standards and are designed to be fuel efficient.

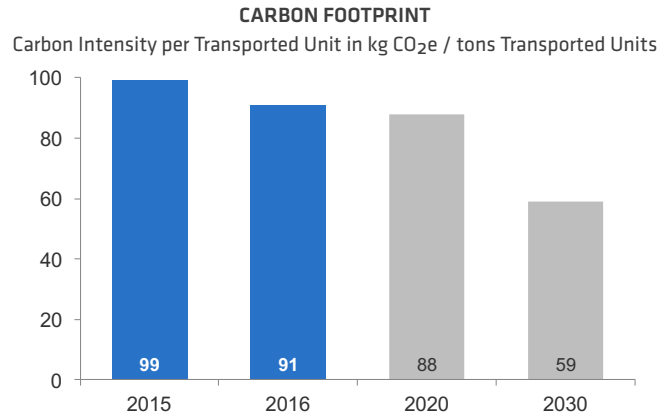
As from 2017 Eimskip will publish its figures on the environmental impact of its operations in accordance with the declaration on the Company's website. The website will also include an efficient transport calculator that will provide Eimskip's customers with carbon footprint related to their transport.

### CARBON FOOTPRINT

Eimskip defines its ecological footprint as a combination of carbon footprint and waste disposal. The operation of the Company's vessels is the main contributor to its carbon footprint.

The Company 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 was stepped up in 2016, giving Eimskip a better overview of its ecological footprint and reduction opportunities. The Company uses its own electronic Environmental Management System that is linked to all major assets in the supply chain, streaming reliable and transparent information on its environmental matters.

The calculation of the Company's carbon footprint is presenting in the following graph which shows carbon intensity per transported unit in kg CO<sub>2</sub> equivalent (e) per ton of transported units.



Eimskip reduced its carbon footprint by 8.8% in 2016 compared to the previous year, calculated per transported unit. The Company's aim is to further reduce its footprint in the coming years, with a goal of 40% reduction in 2030 based on 2015 numbers. This goal of total reduction is comparable with Iceland's decision of joining the European Union and Norway in their common goal of 40% reduction of emission in 2030.

#### ENVIRONMENTAL POLICY AND AIMS

In 1991, Eimskip became one of the first companies in Iceland to establish an environmental policy as a main driver for actions for improved ecological 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 and minimize the creation of waste
- Improve energy efficiency of the Company's vessels
- Improve energy efficiency of the Company's fleet of trucks and other equipment
- Work on savings and improving efficiency in energy consumption on the Company's premises
- Set yearly goals on environmental issues
- Provide employees and customers with regular training on environmental issues

#### 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.

Eimskip's ambition 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%. In addition, the Company will focus on implementing Monitoring, Reporting and Verification (MRV) in 2017.

### **Recycle waste from the Company's operations and minimize the 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 digitized the garbage log and started streaming the data to the environmental data warehouse in 2016. Through this, waste has become a part of the supply chain footprint calculation and analytics. This also increases the possibility of further creating value from the waste.

### **Improve 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, energy efficiency is an integrated part of the operation of the vessel fleet. Based on the positive results, Eimskip will continue focusing on improved energy efficiency and decreased environmental impact of its vessels.

### **Improve energy efficiency of the Company's fleet of 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 140 trucks in Iceland, which are connected to a monitoring system for improved energy efficiency.

The Company 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. Three new harbor cranes were taken into operation in 2015 and 2016 and all of them are fitted for an external, electrical power supply.

### **Work on 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 was 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.

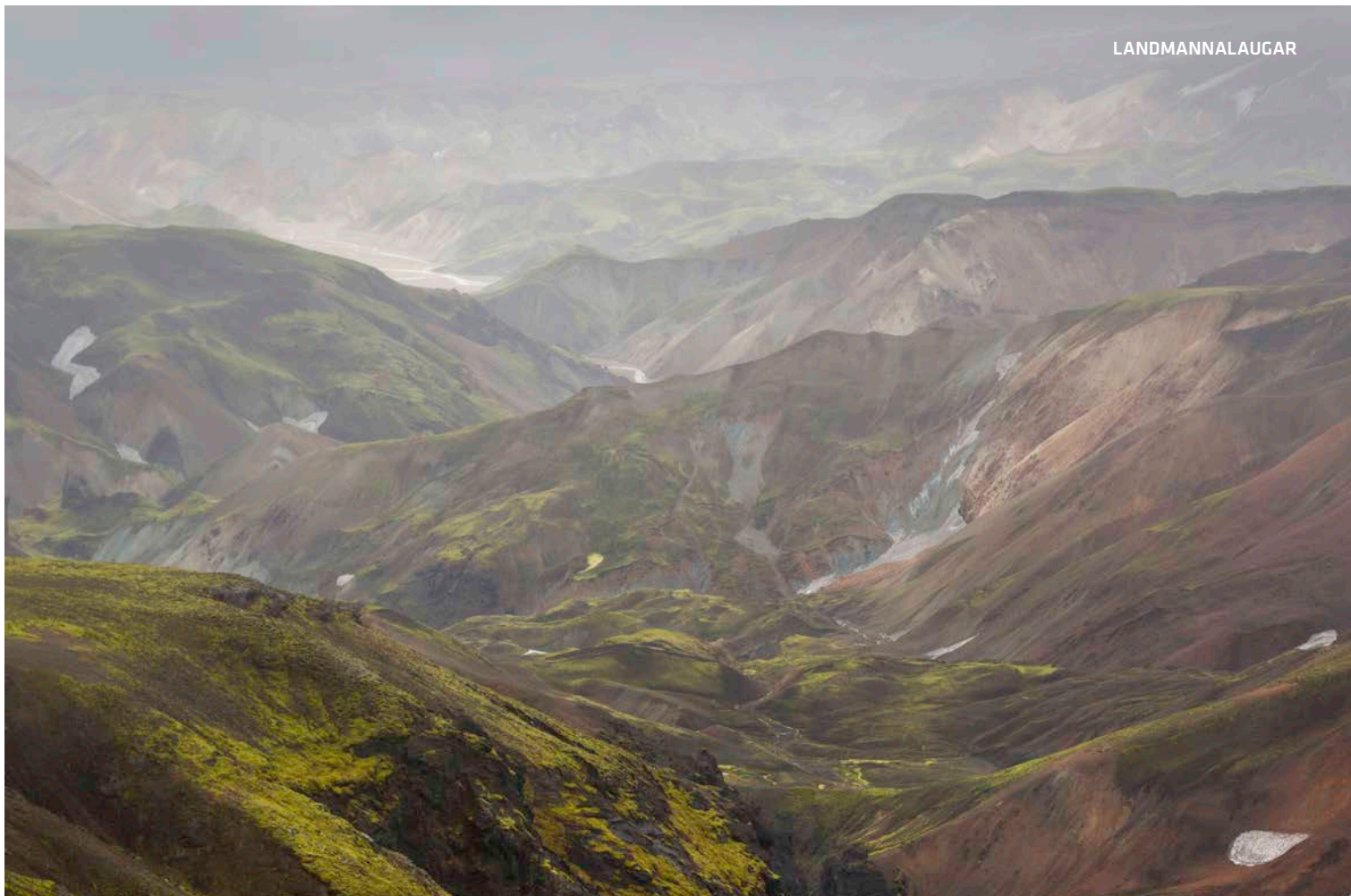
### **Set yearly goals on environmental issues**

In 2015, Eimskip decided to take a vast step forward in improving its overview of its ecological footprint by implementing its own electronic Environmental Management System using data analytics and connectivity solutions. These allow the Company to link together various categories of data collected from the entire supply chain. Crews and office personnel are now provided with high quality information on environmental performance in a user-friendly format.

Eimskip's Environmental Management System utilizes the data collected from the various data sources in the supply chain. The system 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. Data from the entire fleet is now streamed into one Company-designed data warehouse. Other emitters, including trucks and electrical power users, were also connected to the data warehouse in 2016.

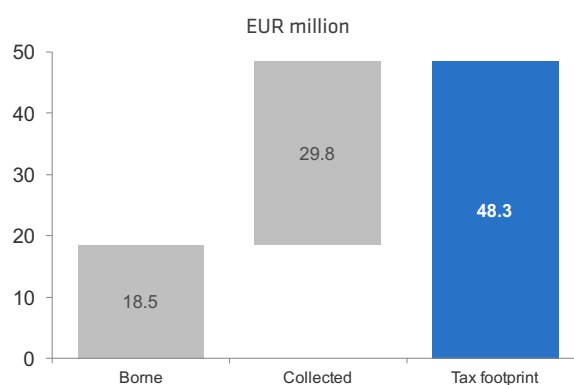
### **Provide employees and customers with regular training on environmental issues**

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 2017 is to continue training employees in energy management and in improved handling of waste.



## TAX FOOTPRINT

The economic value generated by Eimskip's operations in the year 2016 amounted to EUR 514.9 million, consisting of revenue, gain on sale of assets and finance income. The economic value has been contributed in many different ways to the societies in which the Company operates, such as through salaries to employees, payroll taxes to authorities, purchase of goods and services from suppliers, etc.



The total tax footprint of Eimskip amounted to EUR 48.3 million in the year 2016, of which EUR 18.5 million was borne by the Company and EUR 29.8 million was collected on behalf of local authorities.

The Company's taxes borne include employment taxes in the amount of EUR 11.6 million, corporate income tax of EUR 2.8 million, property taxes of EUR 1.9 million, VAT of EUR 1.0 million and other expenses of EUR 1.2 million. Collected taxes include employment taxes borne by employees amounting to EUR 23.5 million and other collected expenses of EUR 6.3 million.

## **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'S ANNUAL REPORT 2016**

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