



Eimskipafélag Íslands hf.
Consolidated Financial Statements
for the year ended 31 December 2019
EUR

Eimskipafélag Íslands hf.
Korngeardar 2
104 Reykjavík
Iceland

Reg. no. 690409-0460

This page has been left blank intentionally

Contents

Endorsement and Statement by the Board of Directors and the CEO	4
Independent Auditors' Report	7
Consolidated Income Statement	10
Consolidated Statement of Comprehensive Income	11
Consolidated Statement of Financial Position	12
Consolidated Statement of Changes in Equity	13
Consolidated Statement of Cash Flows	14
Notes to the Consolidated Financial Statements	15
Appendices:	
Quarterly Statements - unaudited	45
Corporate Governance Statement	46
Non-Financial Reporting	52

Endorsement and Statement by the Board of Directors and the CEO

Operations and significant matters in 2019

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

Net earnings for the year 2019 amounted to EUR 1.0 million (2018: EUR 7.4 million) according to the Consolidated Income Statement. Total equity at 31 December 2019 amounted to EUR 230.9 million (2018: EUR 238.9 million) according to the Statement of Financial Position.

The Annual General Meeting of Eimskip approved on 28 March 2019 a dividend payment to shareholders of ISK 3.50 per share. The total dividend payment amounted to ISK 653.2 million or EUR 4.7 million. The payment date was 10 April 2019.

In November 2019 Eimskip made an agreement to sell three of the Company's reefer vessels, Langfoss, Stigfoss and Vidfoss for USD 12 million (EUR 10.9 million). In December 2019, Eimskip made an agreement to sell the container vessels Godafoss and Laxfoss for USD 3.9 million (EUR 3.5 million). Further information is disclosed in note 22.

EBITDA for the year 2019 is below management's expectations. The main reasons for lower operational results are lower volumes in Eimskip's container liner system. Lower volume is mainly explained by lower import to Iceland than expected due to cooldown in Iceland's economy and reduced export volume due to less catch around Iceland which also negatively affected activity in Iceland domestic trucking.

The Company has been going through various cost and streamlining measures as well as organizational changes in the past year. Considerable changes were made to the Company's structure at the beginning of the year 2019 with the aim of improving operations, increasing long-term profits and strengthening Eimskip's foundation for the future.

Two new vessels that are currently being built in China of 2,150 TEUS each will be added to Eimskip's fleet in the second and third quarter of 2020. The vessels will be used in weekly services between Greenland, Iceland, Faroe Island and Scandinavia as part of a vessel sharing agreement with Royal Arctic Line A/S, which was approved by the Icelandic Competition Authority in April 2019. The new vessels will be the largest container vessels that Eimskip has had in its service and are designed and built for the conditions in the North Atlantic, in accordance with the Polar Code. With the co-operation and larger vessels, economy of scale and increased fuel efficiency is reached with more environmental friendly vessels.

In October 2019, substantial changes were made to the container sailing system. The changes were seen as an important milestone in the Company's journey to improve profitability and strengthen its core operation.

Eimskipafélag Íslands hf. and its subsidiaries, Eimskip Ísland ehf. and TVG-Zimsen ehf., have been under investigation of the Icelandic Competition Authority for nearly a decade. Any elaboration on the potential outcome of the investigation is premature, and no information is available on potential fines, or if they will materialize.

The Icelandic Directorate of Internal Revenue ruled in December 2017 regarding the taxation of the operation of foreign vessel subsidiaries of Eimskip. The Internal Revenue Board confirmed the ruling in March 2019. Due to this ruling Eimskip expensed EUR 3.4 million in the Income Statement. Eimskip disagrees with the ruling of the Internal Revenue Board and is in the process of referring the case to the Icelandic courts.

The Board of Directors proposes no dividend payment to shareholders in 2020 for the year 2019.

Corporate Governance

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

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

Information on matters related to financial risk management is disclosed in note 21.

Endorsement and Statement by the Board of Directors and the CEO

The Company complies with Article 63 of Act no. 2/1995 on Limited Liability Companies (Company Act), as the Company's Board of Directors currently consists of two females and three males. The Executive Management and the CEO consists of six males and one female. The Company's gender ratio is 69% males and 31% females.

Non-Financial Reporting

The Company is defined as a large Public Interest Entity according to the Icelandic Financial Statement Act. The Act states that these companies should disclose as an attachment to the Endorsement of the Board of Directors and CEO relevant and useful information on their policies, main risks and outcomes relating to environmental, social and employee matters, their human rights policy and how they counteract corruption and bribery, in addition to a short description of the Company's business model. The Company's policies and outcome of these matters are further discussed in the Non-Financial Reporting which is an appendix to these Consolidated Financial Statements. Eimskip has today published its Sustainability Statement for 2019 that reflects the ESG guidelines issued by Nasdaq Iceland and the Nordic countries in March 2017. Please refer to the Company's website.

Share capital and articles of association

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

Shareholder:	2019		2018	
	Number of shares	Shares in %	Number of shares	Shares in %
1. Samherji Holding ehf.....	50,600,000	27.67%	50,600,000	27.11%
2. Lífeyrissjóður verzlunarmanna.....	27,785,070	15.19%	27,785,070	14.89%
3. Gildi - lífeyrissjóður.....	23,116,139	12.64%	23,116,139	12.39%
4. Eaton Vance Management*.....	13,656,656	7.47%	15,658,781	8.39%
5. Lífeyrissjóður starfsmanna ríkisins A-deild**.....	12,070,000	6.60%	12,070,000	6.47%
6. Birta lífeyrissjóður.....	11,278,215	6.17%	8,441,706	4.52%
7. Stapi lífeyrissjóður.....	9,331,897	5.10%	9,231,897	4.95%
8. Lífeyrissjóður starfsmanna ríkisins B-deild**.....	4,693,700	2.57%	4,693,700	2.51%
9. Almenni lífeyrissjóðurinn.....	3,611,558	1.97%	3,611,558	1.94%
10. Festa - lífeyrissjóður.....	3,588,414	1.96%	3,588,414	1.92%
11. Söfnunarsjóður lífeyrisréttinda.....	3,302,823	1.81%	2,761,188	1.48%
12. Sjóvá-Almennar tryggingar hf.....	1,635,653	0.89%	746,555	0.40%
Other shareholders	18,208,291	9.96%	24,334,222	13.03%
Total outstanding shares	182,878,416	100.00%	186,639,230	100.00%
Treasury shares	4,121,584		360,770	
Total issued shares	187,000,000		187,000,000	

*) The shareholders are Global Macro Portfolio, JNL/Eaton Vance Global Macro Ab, Global Opportunities Portfolio and Global Macro Absolute Return Advantage Fund.

***) Lífeyrissjóður starfsmanna ríkisins with total shareholding of 9.2%

On 10 June 2019 the Board of Directors initiated a share buy-back program in accordance with the approval of Eimskip shareholders' meeting on 24 July 2018. The number of shares to be acquired under the buy-back program were up to 3,000,000. During the second and third quarter Eimskip purchased a total of 2,677,309 treasury shares with a purchase price of ISK 500 million or EUR 3.6 million. The share buy-back was completed on 27 July 2019. The main purpose of the share-buy back was to reduce the Company's share capital.

On 1 December 2019 the Board of Directors initiated a share buy-back program in accordance with the approval of Eimskip shareholders' meeting on 24 July 2018. The number of shares to be acquired under the buy-back program were up to 3,125,000. During the fourth quarter Eimskip purchased a total of 1,152,690 treasury share with a purchase price of ISK 214 million or EUR 1.5 million. The share buy-back was completed on 24 January 2020 with a total 2,190,465 treasury shares purchased for ISK 411 million or EUR 3.0 million. The main purpose of the share-buy back was to reduce the Company's share capital.

Endorsement and Statement by the Board of Directors and the CEO

The Company's Board of Directors consists of five Directors and two alternate Director, all elected at an extended annual general meeting in April 2019. Those who intend to run for the Board of Directors shall notify the Board of Directors of their candidacy at least five days before a shareholders' meeting. The Company's articles of association may only be amended by a lawful shareholders' meeting, as long as the proposal for the amendment is described in the invitation to the meeting. The decision to amend the articles of association will only be valid if it is approved by 2/3 of the votes and approved by shareholders controlling at least 2/3 of the votes represented at the shareholders' meeting.

Further information on matters related to the share capital is disclosed in note 17. Additional information on shareholders is provided on the Company's website, www.eimskip.is/investors. The number of shareholders at year-end 2019 was 667 which was a decrease of 36 from the beginning of year.

Statement by the Board of Directors and the CEO

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

According to the best of our knowledge, it is our opinion that these annual Consolidated Financial Statements give a true and fair view of the consolidated financial performance of Eimskip for the year 2019, its assets, liabilities and consolidated financial position as at 31 December 2019 and its consolidated cash flows for the year 2019.

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

The Board of Directors and the CEO have today discussed the Consolidated Financial Statements of Eimskipafélag Íslands hf. for the year 2019 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the Consolidated Financial Statements will be approved at the Annual General Meeting of Eimskipafélag Íslands hf.

Reykjavík, 27 February 2020

Board of Directors:

Baldvin Thorsteinsson, Chairman
Hrund Rudolfsdóttir
Guðrún Ó. Blöndal
Lárus L. Blöndal
Óskar Magnússon

CEO:

Vilhelm Már Thorsteinsson

Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Eimskipafélag Íslands hf. (the Group), which comprise the Consolidated Statement of Financial Position as at 31 December 2019, the Consolidated Statements of Income, Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional disclosure requirements for listed companies in Iceland.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters

Revenue Recognition, timing and accuracy

Reference is made to note 5 and note 29.k.

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

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

How the matter was addressed in our audit

Our audit procedures were designed to challenge the timing and accuracy of the revenue recognition.

- We assessed the adequacy of the implementation, operation and monitoring of selected controls, both manual and IT controls related to revenue recognition.
- We tested a sample of transactions around the year-end date in order to assess if those transactions were recognised in the right period.
- For certain significant components, providing forwarding services, we performed analytical review procedures to identify significant margin fluctuations and trends. Where items were noted which were not in line with our expectations, we obtained explanations and evidence from management and assessed whether, in our professional judgment, such items were recognized appropriately.
- We performed journals testing, by inspecting underlying documentation for journal entries which met specified risk-based criteria.
- We assessed whether the accounting policies for revenue recognition were in accordance with International Financial Reporting Standards.

Independent Auditors' Report

Other Information

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

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

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

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

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

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

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

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

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

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

Independent Auditors' Report

- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

The engagement partner on the audit resulting in this independent auditor's report is Hrafnhildur Helgadóttir.

Reykjavík, 27 February 2020

KPMG ehf.

Hrafnhildur Helgadóttir
Sæmundur Valdimarsson

Consolidated Income Statement for the year 2019

	Notes	2019	2018
Revenue			
Operating revenue		678,965	687,613
Other revenue		629	1,541
	5	679,594	689,154
Expenses			
Operating expenses		487,427	502,375
Salaries and related expenses	6	131,618	137,541
	5	619,045	639,916
Operating profit, EBITDA		60,549	49,238
Depreciation, amortization and impairment	10-12,22	(47,027)	(32,548)
Results from operating activities, EBIT		13,522	16,690
Finance income		945	545
Finance expense		(6,057)	(5,382)
Net foreign currency exchange gain (loss)		325	(86)
Net finance expense	7	(4,787)	(4,923)
Share of loss of equity-accounted investees	14	(377)	(1,753)
Net earnings before income tax		8,358	10,014
Income tax	8	(7,351)	(2,612)
Net earnings for the year		1,007	7,402
Net earnings for the year attributable to:			
Equity holders of the Company		765	7,057
Non-controlling interest		242	345
		1,007	7,402
Earnings per share:			
Basic and diluted earnings per share (EUR per share)	9	0.0041	0.0378

The notes on pages 16 to 44 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income for the year 2019

	Notes	2019	2018
Net earnings for the year		1,007	7,402
Other comprehensive income:			
Items that are or may subsequently be reclassified to the income statement			
Foreign currency translation difference of foreign operations		1,014	(1,602)
Effective portion of changes in fair value of cash flow hedges, net of income tax	(575)	(758)
Fair value changes of minority put option liability		525	(375)
Total other comprehensive income for the year		964	(2,735)
Total comprehensive income for the year		1,971	4,667
Total comprehensive income for the year attributable to:			
Equity holders of the Company		1,579	4,407
Non-controlling interest		392	260
		1,971	4,667

The notes on pages 16 to 44 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position

as at 31 December 2019

	Notes	2019	2018
Assets:			
Property, vessels and equipment	10	226,243	245,895
Right-of-use assets	11,22	44,486	0
Intangible assets	12,13	66,227	67,870
Equity accounted investees	14	12,224	11,731
Finance assets		3,647	3,777
Deferred tax assets	15	2,885	5,899
Total non-current assets		355,712	335,172
Inventories		5,280	5,075
Vessels held for sale	22	14,907	0
Trade and other receivables	16,21	127,878	124,108
Cash and cash equivalents		20,737	21,941
Total current assets		168,802	151,124
Total assets		524,514	486,296
Equity:			
Share capital		1,137	1,165
Share premium		149,713	154,726
Reserves		18,151	18,317
Retained earnings		56,947	59,950
Total equity attributable to equity holders of the parent company	17	225,948	234,158
Non-controlling interest		4,920	4,768
Total equity		230,868	238,926
Liabilities:			
Loans and borrowings	18	152,452	130,860
Lease liabilities	19	30,496	0
Other long-term liabilities	26	4,500	5,025
Deferred tax liability	15	4,479	4,868
Total non-current liabilities		191,927	140,753
Loans and borrowings	18	10,552	28,733
Lease liabilities	19	10,763	0
Trade and other payables	20	80,404	77,884
Total current liabilities		101,719	106,617
Total liabilities		293,646	247,370
Total equity and liabilities		524,514	486,296

The notes on pages 16 to 44 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2019

Attributable to equity holders of the Company

	Share capital	Share premium	Trans- lation reserve	Hedging reserve	Fair value changes of minority put options	Un- distributed profits	Retained earnings	Total	Non- controlling interest	Total equity
Changes in Equity 2018:										
Equity at 1 January 2018	1,165	154,726	(6,054)	748	0	25,648	63,878	240,111	4,499	244,610
Dividend paid (0.0555 EUR per share)							(10,360)	(10,360)		(10,360)
Acquisition of subsidiaries with non-controlling interest								0	166	166
Other changes in non-controlling interest								0	(157)	(157)
Total comprehensive income for the year			(1,517)	(758)	(375)		7,057	4,407	260	4,667
Profit of subsidiaries net of dividend received						625	(625)	0		0
Equity at 31 December 2018	1,165	154,726	(7,571)	(10)	(375)	26,273	59,950	234,158	4,768	238,926
Reserves						18,317				
Changes in Equity 2019:										
Equity at 1 January 2019	1,165	154,726	(7,571)	(10)	(375)	26,273	59,950	234,158	4,768	238,926
Dividend paid (0.0255 EUR per share)							(4,748)	(4,748)		(4,748)
Purchased treasury shares	(28)	(5,013)						(5,041)		(5,041)
Other changes in non-controlling interest								0	(240)	(240)
Total comprehensive (loss) income for the year			864	(575)	525		765	1,579	392	1,971
Profit of subsidiaries net of dividend received						(980)	980	0		0
Equity at 31 December 2019	1,137	149,713	(6,707)	(585)	150	25,293	56,947	225,948	4,920	230,868
Reserves						18,151				

The notes on pages 16 to 44 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows for the year 2019

	Notes	2019	2018
Cash flows from operating activities:			
Net earnings for the year		1,007	7,402
Adjustments for:			
Depreciation, amortization and impairment	10-12,22	47,027	32,548
Net finance expense	7	4,787	4,923
Share of loss of equity-accounted investees	14	377	1,753
Change in deferred taxes	8,15	2,501	(407)
Other changes		(253)	(1,526)
		55,446	44,693
Changes in current assets and liabilities:			
Inventories		(186)	(1,169)
Trade and other receivables		(1,973)	(8,069)
Trade and other payables		5,970	312
Change in current assets and liabilities		3,811	(8,926)
Interest received		844	450
Interest paid		(5,954)	(5,489)
Taxes paid		(2,845)	(1,699)
Net cash from operating activities		51,302	29,029
Cash flows from investing activities:			
Acquisition of property, vessels and equipment	10	(33,786)	(42,886)
Acquisition of intangible assets	12	(2,983)	(2,239)
Proceeds from the sale of property, vessels and equipment		1,597	2,621
Investment in subsidiaries net of cash acquired		0	(3,543)
Investment in equity accounted investees		(894)	(3,026)
Investment in finance assets		(485)	(2,832)
Net cash used in investing activities		(36,551)	(51,905)
Cash flows from financing activities:			
Dividend paid to equity holders of the company		(4,748)	(10,360)
Purchased treasury shares		(5,041)	0
Dividend paid to non-controlling interest and other changes		(502)	(654)
Proceeds from non-current loans and borrowings	18	16,423	40,668
Repayment of non-current loans and borrowings	18	(8,704)	(9,023)
Repayment of lease liabilities	23	(13,076)	0
Short term borrowings, change		49	0
Net cash (used in) provided by financing activities		(15,599)	20,631
Changes in cash and cash equivalents		(848)	(2,245)
Cash and cash equivalents at the beginning of the year		21,941	23,169
Effects of exchange rate fluctuations on cash held		(356)	1,017
Cash and cash equivalents at year-end		20,737	21,941
Investing and financing activities not affecting cash flows:			
Acquisition of property, vessels, equipment and intangible assets (IAS 17)	10	0	(2,304)
Proceeds from non-current loans and borrowings		0	2,304
Acquisition of right-of-use assets (IFRS 16)	11	(16,830)	0
New or renewed leases	19	16,830	0
Trade and other receivables		(3,043)	0
Proceeds from non-current loans and borrowings		3,043	0

The notes on pages 16 to 44 are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

General presentation	Page
1 Reporting entity	16
2 Basis of accounting	16
3 Measurement of fair values	16
4 Changes in significant accounting policies	16
29 Significant accounting policies	37
30 Standards issued but not yet effective	44
Notes to the Consolidated Income Statement	
5 Segment reporting	19
6 Salaries and related expenses	20
7 Finance income and expense	21
8 Income tax	21
9 Earnings per share	21
Notes to the Consolidated Statement of Financial Position	
10 Property, vessels and equipment	22
11 Right-of-use assets	23
12 Intangible assets	24
13 Business combinations	25
14 Investment in equity-accounted investees	25
15 Deferred tax assets and liabilities	26
16 Trade and other receivables	26
17 Capital and reserves	27
18 Loans and borrowings	28
19 Lease liabilities	29
20 Trade and other payables	29
21 Financial risk management	29
Other information	
22 Commitments	33
23 Leases	34
24 Related parties	34
25 Auditor's fees	35
26 Group entities	35
27 Other matters	36
28 Subsequent events	36

Notes to the Consolidated Financial Statements

1. Reporting entity

Eimskipafélag Íslands hf. (the "Company" or the "Parent Company") is a public limited liability company domiciled in Iceland. The address of the Company's registered office is Korngardar 2, 104 Reykjavík. The Consolidated Financial Statements of the Company for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as "Eimskip" or the "Group"). The Parent Company is an investment company focused on investments in shipping and logistic services. The Company's shares are listed at Nasdaq Iceland.

2. Basis of accounting

a. Statement of compliance

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

The financial statements were approved and authorized for issue by the Company's Board of Directors on 27 February 2020.

Details of the Group's accounting policies are included in Note 29.

This is the first set of the Group's annual financial statements in which IFRS 16 Leases has been applied. Changes to significant accounting policies are described in Note 4.

b. Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis, except for the valuation of minority put option liabilities and cash flow hedges which are valued at fair value through other comprehensive Income. The methods used to measure fair values for disclosure purposes are discussed in note 3.

c. Functional and presentation currency

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

d. Use of estimates and judgements

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

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

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

Note 4 and 29 k - Revenue

Note 13 - Business combinations

Note 15 - Measure of the recoverable amounts of deferred tax assets

Note 16 - Trade and other receivables

3. Measurement of fair values

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

4. Changes in significant accounting policies

Except as described in note 4a below, the accounting policies applied in these Consolidated Financial Statements are the same as those applied in the Group's Consolidated Financial Statements as at and for the year ended 31 December 2018.

Notes

4. Changes in significant accounting policies, continued

a. Implementation of IFRS 16

Effects of implementation

The Group has initially applied IFRS 16 *Leases* from 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. IFRS 16 introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease requirements and by requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the Income Statement. Short-term leases are leases with a lease term of 12 months or less.

In accordance with the implementation of IFRS 16, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the lessee's incremental borrowing rate.

Eimskip has completed a detailed assessment of the impact on its Consolidated Financial Statements. The most significant impact identified is that the Group has recognized new assets and liabilities for its operating leases of buildings and land, vessels, vehicles and equipment.

As at 1 January 2019, the additional assets and liabilities in the Statement of Financial Position amount to EUR 32.5 million. In addition, the nature of expenses related to those leases has now changed as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Eimskip is not a third party lessor in any material instances.

The implementation of IFRS 16 does not impact Eimskip's ability to comply with the revised maximum leverage threshold of loan covenants.

Change in the accounting policy for vessel chartering

When preparing the financial statements of Eimskip for the year 2019, a decision was made to change the accounting policy for the recognition of the right-of-use assets and the corresponding lease liabilities on vessels, as reported in the interim financial statements, both in the implementation and all subsequent additions during the year 2019. The changed accounting policy has the effect that an adjustment was made to the implementation of IFRS 16 as at 1 January 2019 and the subsequent interim financial statements of 2019.

The adjustment relates to vessels, that are or were time chartered, and included operating costs of crewing, insurance, maintenance and other operating costs. These costs have now been separated into components where the components of the lease of the vessels themselves are accounted for as right-of-use assets and corresponding lease liabilities. The separated operating costs are expensed as incurred, as the vessels had been bareboat chartered instead of time chartered. Eimskip has estimated the stand-alone price of the cost, maximising the use of observable information. The adjustment also incorporates the revised terms of one land lease.

	1.1.2019
Right-of-use assets - property, vessels and equipment and lease liabilities, as previously reported	38,019
Adjustment of right-of-use assets and lease liabilities	(5,527)
Adjusted right-of-use assets - property, vessels and equipment and lease liabilities	32,492
Retained earnings	0

The adjustment has immaterial effect on equity. Operating expenses, depreciation and finance expenses have been restated in Q1 2019, Q2 2019 and Q3 2019 with immaterial effect on net loss or earnings. More information regarding the effect of the adjustment can be found in the quarterly statements.

Notes

4. Changes in significant accounting policies, continued

a. Implementation of IFRS 16, continued

Effects on transition

On transition to IFRS 16, Eimskip recognized, as per 1 January 2019, in the Consolidated Balance Sheet, right-of-use assets and additional lease liabilities.

When measuring lease liabilities for leases that were classified as operating leases, Eimskip discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 4,1%.

Operating lease commitments at 31 December 2018 as disclosed under IAS 17	22,257
Operating lease commitment previously not recognized under IAS17*	15,101
Discounted using the incremental borrowing rate at 1 January 2019	(1,825)
- Recognition exemption for low-value assets and short-term leases	(3,041)
Lease liabilities recognized at 1 January 2019	32,492

*The adjustment of the operating lease commitment is due to land and building leases not previously recognized as an operating lease commitment under IAS 17. The adjustment also includes operating expense lease components that were included in the operating lease commitments of chartered vessels recognized under previous IAS 17.

Effects on the Consolidated Income Statements

	2019			2018
	As reported	Impact of IFRS 16	Excluding IFRS 16	As reported
Revenue				
Revenue	679,594	0	679,594	689,154
Expenses				
Operating expenses	487,427	11,197	498,624	502,375
Salaries and related expenses	131,618	0	131,618	137,541
	619,045	11,197	630,242	639,916
Operating profit, EBITDA	60,549	(11,197)	49,352	49,238
Depreciation, amortization and impairment	(47,027)	10,151	(36,876)	(32,548)
Results from operating activities, EBIT	13,522	(1,046)	12,476	16,690
Finance income	945	0	945	545
Finance expense	(6,057)	1,398	(4,659)	(5,382)
Net foreign currency exchange gain (loss)	325	(940)	(615)	(86)
Net finance (expense) income	(4,787)	458	(4,329)	(4,923)
Share of loss of equity accounted investees	(377)	0	(377)	(1,753)
Net earnings before income tax	8,358	(588)	7,770	10,014
Income tax	(7,351)	118	(7,233)	(2,612)
Net earnings for the year	1,007	(470)	537	7,402

Further disclosures the effects of IFRS 16 on the Company's Consolidated Financial Statements can be found in notes 11, 19 and 23.

Notes

5. Segment reporting

Business segments

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

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

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

	Liner services	Forwarding services	Consoli- dated
For the year 2019			
Revenue, external	432,665	246,929	679,594
Inter-segment revenue	37,900	56,982	94,882
Total	470,565	303,911	774,476
Expenses, external	(373,914)	(245,131)	(619,045)
Inter-segment expense	(56,982)	(37,900)	(94,882)
EBITDA	39,669	20,880	60,549
Depreciation, amortization and impairment	(40,467)	(6,560)	(47,027)
EBIT	(798)	14,320	13,522
Net finance (expense) income	(4,876)	89	(4,787)
Share of (loss) earnings of equity-accounted investees	(414)	37	(377)
Income tax	(3,437)	(3,914)	(7,351)
Net (loss) earnings for the year	(9,525)	10,532	1,007
Segment assets	429,686	94,828	524,514
Segment liabilities	235,688	57,958	293,646
Non-lease capital expenditure	35,184	1,585	36,769
	Liner services	Forwarding services	Consoli- dated
For the year 2018			
Revenue, external	449,236	239,918	689,154
Inter-segment revenue	38,738	53,885	92,623
Total	487,974	293,803	781,777
Expenses, external	(399,097)	(240,819)	(639,916)
Inter-segment expense	(53,885)	(38,738)	(92,623)
EBITDA	34,992	14,246	49,238
Depreciation and amortization	(30,686)	(1,862)	(32,548)
EBIT	4,306	12,384	16,690
Net finance expense	(5,278)	355	(4,923)
Share of earnings (loss) of equity-accounted investees	(1,842)	89	(1,753)
Income tax	700	(3,312)	(2,612)
Net (loss) earnings for the year	(2,114)	9,516	7,402
Segment assets	406,488	79,808	486,296
Segment liabilities	209,836	37,534	247,370
Capital expenditure	45,631	1,798	47,429

Notes

5. Segment reporting, continued

Geographical segments

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

	North Atlantic	Other territories	Consoli- dated
For the year 2019			
Revenue, external	635,281	44,313	679,594
Segment assets	510,402	14,112	524,514
Non-lease capital expenditure	36,730	39	36,769
For the year 2018			
Revenue, external	640,088	49,066	689,154
Segment assets	472,214	14,082	486,296
Non-lease capital expenditure	47,410	19	47,429

6. Salaries and related expenses

Salaries and related expenses are specified as follows:

	2019	2018
Salaries	106,738	111,598
Defined pension contribution plan	11,746	11,939
Other related expenses	13,134	14,004
Salaries and related expenses	131,618	137,541
Average number of full-time equivalents during the year	1,778	1,823
Average number of employees	1,823	1,880
Number of full-time equivalents at year-end	1,785	1,812

Notes

7. Finance income and expense

Finance income is specified as follows:

	2019	2018
Interest income	708	461
Dividend received	100	84
Gain on sale of shares	137	0
Finance income	945	545

Finance expense is specified as follows:

Interest on long-term loans	(3,126)	(3,440)
Interest on lease liabilities	(1,873)	(491)
Other finance expense	(1,058)	(1,451)
Finance expense	(6,057)	(5,382)
Net foreign currency exchange loss	325	(86)
Net finance expense	(4,787)	(4,923)

8. Income tax

(i) Income tax recognized in the income statement:

Current tax expense:

Current year	4,709	3,191
--------------------	-------	-------

Deferred tax:

Origination and reversal of temporary differences	2,272	(471)
Other changes	370	(108)
	2,642	(579)
Total income tax	7,351	2,612

(ii) Reconciliation of effective income tax rate:

	2019		2018	
Net earnings before income tax		8,358		10,014
Income tax using the Company's domestic tax rate	20.0%	1,672	20.0%	2,003
Effect of tax rates in foreign jurisdictions	4.9%	411	(2.8%)	(277)
Under or over provided in previous years	0.0%	0	(0.8%)	(85)
Income tax reassessment for vessel subsidiaries	40.7%	3,400	0.0%	0
Other changes	22.3%	1,868	9.7%	971
Effective income tax rate	88.0%	7,351	26.1%	2,612

Decrease in income tax relating to items in other comprehensive income amounted to EUR 144 thousand (2018: Decrease EUR 190 thousand).

9. Earnings per share

Basic and diluted earnings per share

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

	2019	2018
Net earnings attributable to equity holders of the Company	765	7,057
Number of issued shares at 1 January in thousands	187,000	200,000
Effect of shares reduced	0	(13,000)
Effect of treasury shares at 1 January in thousands	(361)	(361)
Effect of treasury shares purchased in thousands	(1,396)	0
Weighted average number of outstanding shares at 31 December	185,243	186,639
Basic and diluted earnings per share (EUR)	0.0041	0.0378

Notes

10. Property, vessels and equipment

Property, vessels and equipment are specified as follows:

	Land and buildings	Vessels under construction	Vessels under construction	Containers and equipment	Total
Cost					
Balance at 1 January 2018	98,699	108,222	12,258	145,885	365,064
Reclassification of assets	2,382	0	0	(2,668)	(286)
Additions in acquisition	167	0	0	0	167
Additions	790	8,439	6,632	29,329	45,190
Disposals	(48)	(6,421)	0	(5,944)	(12,413)
Currency adjustments	(533)	(347)	0	(429)	(1,309)
Balance at 31 December 2018	101,457	109,893	18,890	166,173	396,413
Balance at 1 January 2019	101,457	109,893	18,890	166,173	396,413
Reclassified to right-of-use assets	0	0	0	(10,474)	(10,474)
Reclassification of assets	342	0	0	(882)	(540)
Reclassified to vessels held for sale	0	(30,848)	0	0	(30,848)
Additions	1,629	5,100	7,490	19,567	33,786
Disposals	0	0	0	(4,326)	(4,326)
Currency adjustments	227	7	0	283	517
Balance at 31 December 2019	103,655	84,152	26,380	170,341	384,528
Depreciation					
Balance at 1 January 2018	24,977	43,026	0	66,896	134,899
Reclassification of assets	0	0	0	(63)	(63)
Additions in acquisition	(31)	0	0	0	(31)
Disposals	(38)	(6,421)	0	(4,862)	(11,321)
Depreciation	3,915	7,723	0	16,082	27,720
Currency adjustments	(212)	(137)	0	(337)	(686)
Balance at 31 December 2018	28,611	44,191	0	77,716	150,518
Balance at 1 January 2019	28,611	44,191	0	77,716	150,518
Reclassified to right-of-use assets	0	0	0	(2,708)	(2,708)
Reclassified to vessels held for sale	0	(15,941)	0	0	(15,941)
Disposals	0	0	0	(3,649)	(3,649)
Depreciation	3,966	8,919	0	14,161	27,046
Impairment	0	2,620	0	0	2,620
Currency adjustments	197	0	0	202	399
Balance at 31 December 2019	32,774	39,789	0	85,722	158,285
Carrying amounts					
At 1 January 2018	73,722	65,196	12,258	78,989	230,165
At 31 December 2018	72,846	65,702	18,890	88,457	245,895
At 31 December 2019	70,881	44,363	26,380	84,619	226,243
Pledges					
Property, vessels and equipment with a carrying amount of EUR 59.1 million (2018: EUR 76.5 million) have been pledged as security for loans amounting to EUR 163.3 million (2018: EUR 159.6 million) at year-end. The comparable figures for 2018 include finance lease assets and liabilities as reported under IAS 17.					
Borrowing costs					
Borrowing costs amounting to EUR 0.4 million (2018: EUR 0.4 million) with an interest rate of 1.74% have been capitalized due to vessels under construction.					

Notes

10. Property, vessels and equipment, continued

Assets reclassified to right-of use assets in the implementation of IFRS 16

In the implementation of IFRS 16 as at 1 January 2019, assets with a book value of EUR 7.8 million were reclassified from property, vessels and equipment to right-of-use assets. The lease liability according to the lease agreements at the same time amounted to EUR 6.1 million. In the year-end of 2019 the book value of assets classified as finance leases according to the previous IAS 17 was EUR 8.1 million in the year-end of 2019 with a corresponding lease liability of EUR 5.5 million.

11. Right-of-use assets

The Group has adopted IFRS 16 and started reporting as of 1 January 2019. As a consequence, the Group recognizes a Right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Please refer to notes 4 and 23 for further information.

	Buildings and		Vessels	Vehicles and		Total
	Land	Cold storage		Equipment		
Cost						
At 1 January 2019	7,784	17,248	11,065	1,922		38,019
Effect of adjustment	2,116	0	(7,643)	0	(5,527)
Adjusted balance as at 1 January 2019	9,900	17,248	3,422	1,922		32,492
Reclassified from property, vessels and equipment	0	0	0	10,474		10,474
New and amended leases	0	2,705	7,189	6,936		16,830
Expired leases	0	(289)	(1,618)	(87)	(1,994)
Divestments	0	0	(1,874)	(297)	(2,171)
Currency adjustments	0	54	0	5		59
Balance at 31 December 2019	9,900	19,718	7,119	18,953		55,690
Depreciation						
Depreciation	318	4,296	4,214	3,042		11,870
Reclassified to right-of-use assets	0	0	0	2,708		2,708
Expired leases	0	(289)	(1,618)	(87)	(1,994)
Divestments	0	0	(1,291)	(82)	(1,373)
Currency adjustments	0	(8)	0	1	(7)
Balance at 31 December 2019	318	3,999	1,305	5,582		11,204
Carrying amounts						
At 1 January 2019	7,784	17,248	11,065	1,922		38,019
At 31 December 2019	9,582	15,719	5,814	13,371		44,486

The Group adopted IFRS 16 at 1 January 2019 with no restatement of comparative periods, therefore no comparatives are presented.

Notes

12. Intangible assets

Intangible assets and amortization are specified as follows:

	Goodwill	Brand name	Software	Market and customer related	Total
Cost					
Balance at 1 January 2018	24,667	15,123	21,082	24,946	85,818
Additions in acquisition	(282)	0	287	299	304
Additions	3,601	0	2,239	0	5,840
Disposals	0	0	0	0	0
Currency adjustments	(215)	(20)	(2)	(196)	(433)
Balance at 31 December 2018	27,771	15,103	23,606	25,049	91,529
Balance at 1 January 2019	27,771	15,103	23,606	25,049	91,529
Reclassification of assets	(404)	0	540	525	661
Additions	0	0	2,983	0	2,983
Currency adjustments	44	37	(16)	182	247
Balance at 31 December 2019	27,411	15,140	27,113	25,756	95,420
Amortization					
Balance at 1 January 2018	0	0	14,347	4,489	18,836
Disposal	0	0	40	15	55
Amortization	0	0	2,890	1,938	4,828
Currency adjustments	0	0	(3)	(57)	(60)
Balance at 31 December 2018	0	0	17,274	6,385	23,659
Balance at 1 January 2019	0	0	17,274	6,385	23,659
Amortization	0	0	3,525	1,966	5,491
Currency adjustments	0	0	(10)	53	43
Balance at 31 December 2019	0	0	20,789	8,404	29,193
Carrying amounts					
At 1 January 2018	24,667	15,123	6,735	20,457	66,982
At 31 December 2018	27,771	15,103	6,332	18,664	67,870
At 31 December 2019	27,411	15,140	6,324	17,352	66,227

Impairment testing

Intangible assets other than goodwill and brand names are stated at cost less any accumulated amortization. Goodwill and brand name were assessed to have an indefinite useful life since there was no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

The carrying amount of goodwill and brand name are tested annually for impairment. No impairment has been recognized.

The Company has acquired several subsidiaries. Each acquired company is considered to be one Cash Generating Unit ("CGU") for the purpose of impairment testing. The carrying amounts of goodwill related to the acquisition of Mareco N.V. is EUR 9.8 million, EUR 3.9 million is related to SHIP-LOG A/S and EUR 7.6 million related to Extraco Internationale Expeditie B.V.

The impairment tests were performed in the fourth quarter of 2019 and were based on the results of 31 December 2019 as well as the board approved budget for the year 2020. The impairment tests are in the form of discounted cash-flow analysis. The periods projected are the years 2021-2025 with a fixed growth rate after the projected period when estimating the terminal value. The material variables in the test are revenue growth, EBITDA margin, investments and growth rate after the five year forecasted period. The projected variables are based on past experience and market research. The growth in EBITDA margins used to estimate future cash flows are based on management best estimates that take into account past performance and experience, external market growth assumptions and any uncertainties in the market the CGU operates or depends on.

Notes

12. Intangible assets, continued

	2019	2018
Future growth rate	1.0% - 3.5%	1.0% - 2.0%
Weighted-average cost of capital	7.1% - 9.6%	8.3% - 11.1%
Debt-ratio	20% - 52%	22% - 56%

One individual CGU is sensitive for impairment. The individual CGU has been experiencing adverse market conditions which management assesses as temporary. If market conditions will not improve it could lead to impairment of the CGU's goodwill. If the future growth rate decreases by 1%, EBITDA decreases by 5% or WACC increases by 1% of the following variables changes without a change in the other it does not lead to impairment. If two of these variables change it leads to a an impairment of EUR 1.0 - 1.8 million.

13. Business combinations

During the year 2018, the company acquired 51% of the company Tromsøterminalen AS. The acquisition was accounted for by applying the purchase method. The purchase price of Tromsøterminalen AS was allocated to identifiable assets and liabilities acquired in accordance with IFRS 3 *Business Combinations*. The values of assets and liabilities recognized on acquisition are their estimated fair values. Purchase price allocation of calculated goodwill on acquisition was finalized in the year 2019. The following table describes the consideration paid for Tromsøterminalen AS and the recognized provisional amount of assets acquired and liabilities assumed at the acquisition date being 15 August 2018:

	Pre-acquisition carrying amounts	Fair value adjustments	Recognized values on acquisition
Property and equipment	193	0	193
Intangible assets	0	551	551
Inventories	28	0	28
Trade and other receivables	257	0	257
Cash and cash equivalents	224	0	224
Deferred tax liability	(10)	(127)	(137)
Trade and other payables	(361)	0	(361)
Total net identified assets	331	424	755
Non-controlling interest	(162)	0	(162)
Calculated goodwill on acquisition	3,631	(424)	3,207
Total purchase price on acquisition	3,462	0	3,462

14. Investments in equity-accounted investees

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

Shares in associated companies	Ownership	Share of	Share of	Book value	Book value
		earnings	earnings	2019	2018
		2019	2018	2019	2018
Qingdao Port Eimskip					
Coldchain Log. Co. Ltd., China	30.0%	37	89	653	613
Truenorth Ísland ehf., Iceland	-	0	(475)	0	0
Discover Truenorth ehf., Iceland	20.0%	(73)	(149)	0	75
Hammerfest Fryseterminal AS, Norway	20.5%	3	2	194	189
Tromsøterminalen Eiendom AS, Norway	49.0%	(143)	(35)	2,682	2,178
Krit eignarhaldssjóður, Iceland	40.0%	(108)	0	24	145
		(284)	(568)	3,553	3,200

Notes

14. Investments in equity-accounted investees, continued

Joint ventures

ElbFeeder Inc., The Marshall Islands	47.9%	(192)	(1,211)	7,142	7,468
Feederstar Verwaltung GmbH	49.0%	0	0	12	0
Feederstar GmbH & Co. KG, Germany	49.0%	(15)	0	343	0
P/F í Ánunum, The Faroe Islands	50.0%	62	26	886	824
P/F Gervi, The Faroe Islands	51.0%	52	0	288	239
		(93)	(1,185)	8,671	8,531
Total equity accounted investees and joint ventures ...		(377)	(1,753)	12,224	11,731

The Group has long term receivables on one of its equity-accounted investees amounting to EUR 2.6 million at year-end 2019 (2018: EUR 2.3 million) and a short term receivable on another equity-accounted investee amounting to EUR 3.0 million (2018: EUR 0 million).

15. Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

	Assets	Liabilities	Net
2019			
Property, vessels and equipment	325	(1,043)	(718)
Intangible assets	184	(230)	(46)
Right-of-use assets	31	(5,968)	(5,937)
Current assets	1,073	(4,160)	(3,087)
Current liabilities	113	0	113
Lease liabilities	5,763	0	5,763
Other	34	(274)	(240)
Tax loss carried-forward	2,558	0	2,558
Total tax assets (liabilities)	10,081	(11,675)	(1,594)
Set off tax	(7,196)	7,196	0
Net tax assets	2,885	(4,479)	(1,594)
2018			
Property, vessels and equipment	236	(754)	(518)
Intangible assets	0	(4,587)	(4,587)
Current assets	1,343	(45)	1,298
Current liabilities	50	0	50
Other	190	(69)	121
Tax loss carried-forward	4,667	0	4,667
Total tax assets (liabilities)	6,486	(5,455)	1,031
Set off tax	(587)	587	0
Net tax assets	5,899	(4,868)	1,031

The Group has tax losses carried-forward that have not been recognized. If those tax losses carried-forward would be recognized, deferred tax asset would increase by 1.4 million EUR (2018: EUR 3.1 million).

16. Trade and other receivables

Trade and other receivables are specified as follows:

	2019	2018
Trade receivables	109,836	110,861
Restricted cash	423	511
Other receivables	17,619	12,736
Trade and other receivables total	127,878	124,108

Restricted cash consists of deposits for guarantees issued towards tax authorities, customs, port authorities and leases of office buildings.

Notes

16. Trade and other receivables, continued

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

	2019	2018
Balance at beginning of year	(8,151)	(7,954)
Write-offs	1,679	1,130
Changes in allowance for impairment losses	414	(1,327)
Balance at year-end	(6,058)	(8,151)

For more information regarding trade and other receivables see note 21.

17. Capital and reserves

Share capital

The Company's capital stock is nominated in Icelandic króna (ISK). The nominal value of each share is ISK 1 and one vote is attached to each share. Total authorized and issued shares were 187,000,000 both at the beginning and at the end of the year.

Total outstanding shares were 186,639,230 at the beginning of the year and 182,878,416 at the end of the year. They increased by 3,760,814 due to share-buy back programs. The share capital of the Company is now ISK 187.0 million and the number of Company's treasury shares is ISK 4,121,584. The EUR amount of capital stock was 1.2 million at year-end 2019.

Shares issued to A1988 hf.

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

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

Share premium

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

Translation reserve

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

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Fair value reserve of minority put option

The fair value reserve comprises the cumulative net change in the fair value of minority put option.

Undistributed profits

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

Dividend

The Board of Directors has approved the following dividend policy: "The policy of Eimskipafélag Íslands hf. is to pay annual dividend that equals an amount in the range of 10-65% of net profit after taxes. Decisions on dividend payment, and the exact amount, are subject to the Company's future investment plans, market outlook and satisfactory capital structure at any given

According to a resolution made on the Company's 2019 annual General Meeting, a dividend of EUR 4.8 million or ISK 3.50 per share, was paid to shareholders, which represented 64.8% of net earnings for the year 2018. According to a resolution made on the Company's 2018 Annual General Meeting, dividend in the amount of EUR 10.4 million or ISK 6.80 per share, was paid to shareholders, which represented 61% of the Company's profits for the year 2017.

Treasury shares are not entitled to receive dividend. The Board of Directors proposes no dividend payment to shareholders in 2020 for the year 2019.

Notes

18. Loans and borrowings

This note provides information on the contractual terms of Eimskip's interest bearing loans and borrowings. For more information about Eimskip's exposure to foreign currency risk, see note 21:

Loans and borrowings consist of the following:

	2019	2018
Secured bank loans	162,939	145,113
Finance lease liabilities (former IAS 17)	0	14,351
Bank overdraft and short term borrowings	65	129
Total loans and borrowings	<u>163,004</u>	<u>159,593</u>
Current maturities of secured bank loans	(10,487)	(18,321)
Finance lease liabilities payable within one year (former IAS 17)	0	(10,283)
Bank overdraft and short term borrowings	(65)	(129)
	<u>(10,552)</u>	<u>(28,733)</u>
Non-current loans and borrowings	152,452	130,860

The loan agreements of Eimskip contain restrictive covenants. At year-end 2019 and 2018 Eimskip complied with all restrictive covenants.

Secured bank loans

Secured bank loans are as follows:

	2019		2018	
	Nominal interest	Carrying amount	Nominal interest	Carrying amount
Loans in EUR	1.8%	146,651	2.0%	127,508
Loans in USD	5.4%	5,218	5.4%	6,233
Loans in ISK	3.9%	9,962	5.5%	9,959
Loans in other currencies	-	1,108	-	1,413
Total secured bank loans		<u>162,939</u>		<u>145,113</u>

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

	2019	2018
On demand or within 12 months	10,487	18,321
12 - 24 months	48,565	9,216
24 - 36 months	9,680	20,197
36 - 48 months	9,612	9,132
48 - 60 months	9,013	9,620
After 60 months	75,582	78,627
Total secured bank loans	<u>162,939</u>	<u>145,113</u>

Reconciliation of movements of loans and borrowings to cash flow's financing activities

	2019	2018
Balance of loans and borrowings as at 1 January	159,593	125,984
Finance lease liabilities reclassified to Lease liabilities	(6,048)	-
Proceeds from non-current loans and borrowings with cash effects	16,423	40,668
Non-cash proceeds from non-current loans and borrowings	3,043	2,304
Repayment of non-current loans and borrowings	(8,704)	(9,023)
Currency adjustments	(1,303)	(340)
Loans and borrowings at 31 December	<u>163,004</u>	<u>159,593</u>

Notes

19. Lease liabilities

Lease liabilities are as follows:

	31.12.2019
Lease Liabilities in EUR	7,514
Lease Liabilities in USD	9,761
Lease Liabilities in ISK	12,345
Lease Liabilities in other currencies	11,639
Total	41,259
Current maturities	(10,763)
Non-current maturities	30,496

	31.12.2019
Maturity analysis:	
Within 12 months	10,763
12 - 24 months	6,887
24 - 36 months	5,421
36 - 48 months	3,761
48 - 60 months	2,428
After 60 months	11,999
Total	41,259

20. Trade and other payables

Trade and other payables are attributable to the following:

	2019	2018
Trade payables	49,605	53,255
Income tax payable	1,260	713
Other payables	29,539	23,916
Total	80,404	77,884

21. Financial risk management

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

Risk management framework

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

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

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

Notes

21. Financial risk management, continued

(i) Credit risk

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

The carrying amounts of financial assets represent the maximum credit exposure. Impairment losses on financial assets recognised in profit or loss were as follows.

	2019	2018
Impairment loss on trade and other receivables (note 16)	1,679	1,130

Trade and other receivables

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

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

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

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

The fair value of financial assets and liabilities equals their carrying amount, as the impact of discounting is not significant.

Exposure to credit risk

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

	Note	2019 Carrying amount	2018 Carrying amount
Trade and other receivables	16	127,878	124,108
Cash and cash equivalents		20,737	21,941
Total		148,615	146,049

At year-end 2019 and 2018 there were no significant concentration of credit risk for trade and other receivables by individual counterparties or individual countries.

Impairment risk

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

	Gross 2019	Impairment 2019	Gross 2018	Impairment 2018
Not past due	91,555	(885)	90,600	(522)
Past due 1 - 90 days	25,912	(196)	27,937	(214)
Past due 91 - 180 days	5,081	(129)	3,305	(1,322)
More than 180 days	11,388	(4,848)	10,417	(6,093)
Total	133,936	(6,058)	132,259	(8,151)

(ii) Liquidity risk

Liquidity risk is the risk that Eimskip will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. Eimskip's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Eimskip's reputation. The Company has undrawn revolver facility amounting to EUR 6.6 million at year-end 2019.

Notes

21. Financial risk management, continued

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

Financial liabilities	Carrying amount	Contractual cash flow	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
31.12.2019						
Secured bank loans	163,004	177,961	13,552	51,040	33,382	79,987
Lease liabilities (IFRS 16)	41,259	58,358	11,949	8,149	11,999	26,261
Trade and other payables	80,404	80,404	80,404	0	0	0
Total	284,667	316,723	105,905	59,189	45,381	106,248

31.12.2018

Secured bank loans	145,242	164,811	21,254	11,697	45,174	86,686
Finance lease liabilities (IAS 17)	14,351	14,800	10,592	1,987	2,210	11
Trade and other payables	77,884	77,884	77,884	0	0	0
Total	237,477	257,495	109,730	13,684	47,384	86,697

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

(iii) Market risk

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

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in currencies other than the respective functional currencies of the Group entities. At year-end 2019 the primary risks are attached to the US Dollar (USD), the Icelandic krona (ISK), the Euro (EUR) but also the Japanese Yen (JPY) as can be seen in the table below.

Exposure to currency risk

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

31 December 2019	USD	ISK	EUR	JPY	Other
Finance assets	2,007	665	0	0	0
Trade and other receivables	29,225	26,551	2,327	1,606	5,127
Cash and cash equivalents	5,264	583	973	15	1,185
Loans and borrowings	(5,218)	(9,157)	(787)	0	(85)
Lease liabilities (IFRS 16)	(3,619)	(17,618)	0	0	0
Trade and other payables	(13,938)	(15,845)	(764)	(4)	(5,093)
Net balance sheet exposure	13,721	(14,821)	1,749	1,617	1,134

31 December 2018	USD	JPY	EUR	CAD	Other
Finance assets	1,744	0	0	0	1,052
Trade and other receivables	28,221	1,510	1,451	756	33,661
Cash and cash equivalents	6,308	10	1,272	32	2,533
Loans and borrowings (IAS 17)	(9,763)	0	(855)	0	(11,690)
Trade and other payables	(14,096)	(13)	(648)	(91)	(24,198)
Net balance sheet exposure	12,414	1,507	1,220	697	1,358

Notes

21. Financial risk management, continued

Sensitivity analysis

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

	2019	2018
USD	(1,418)	(1,281)
JPY	(129)	(121)
ISK	98	33
EUR	(119)	(78)
DKK	(96)	(49)
GBP	68	(18)

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

The following significant exchange rates were applied during the year:

EUR:	Average rate		Reporting date spot rate	
	2019	2018	2019	2018
USD	1.1193	1.1782	1.1212	1.1471
JPY	122.0004	130.2083	121.7900	126.6850
ISK	137.2431	127.7139	135.8000	133.2500
RMB	7.7328	7.8076	7.8072	7.8900
PLN	4.2967	4.2613	4.2530	4.2900

Interest rate risk

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

Variable rate instruments	Carrying amount	
	2019	2018
Cash and cash equivalents	20,737	21,941
Financial liabilities	(163,004)	(159,593)
Net exposure	(142,267)	(137,652)

A change of 100 basis points in interest rates at the reporting date would increase (decrease) result after income tax by EUR 682 thousand (2018: EUR 914 thousand). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for the year 2018. Eimskip does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss.

(iv) Operational risk

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

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

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

Capital management

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

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

Notes

21. Financial risk management, continued

The Board of Directors of Eimskip has approved a long-term target capital structure. The objective is to maintain an equity ratio near 40%, a benchmark leverage in the range of 2-3 for net debt against EBITDA. This is a long-term objective through the business cycle that can vary from quarter to quarter based on general economic and business conditions as well as strategic initiatives.

(i) Equity ratio

	2019	2018
Total equity	230,868	238,926
Total balance sheet capital	524,514	486,296
Equity ratio	44.02%	49.13%

(ii) Net debt to EBITDA ratio (benchmark leverage)

Total interest-bearing debt	163,004	159,593
Cash and cash equivalents	(20,737)	(21,941)
Net debt	142,267	137,652
EBITDA	60,549	49,238
Net debt / EBITDA	2.35	2.80
Net debt / EBITDA adjusted for the effects of IFRS 16	2.88	2.80

22. Commitments

Vessels sale

In November 2019 Eimskip made an agreement to sell three of the Company's reefer vessels, Langfoss, Stígfoss and Vídfoss and in December 2019, Eimskip made an agreement to sell the container vessels Godafoss and Laxfoss. Three of the vessels, Vídfoss, Godafoss and Laxfoss will be leased back. Vídfoss will be leased back for a term of two years but Godafoss and Laxfoss until the vessels under construction are estimated to be delivered. The difference of the sales price and the book value of the vessels that are leased back, which belongs to the part of the right of use that has not been transferred to the buyer of the vessels will be added to the right-of-use asset of the leases that will commence in the first quarter of 2019. Therefore that part of the difference will be recognized as a part of the vessels held for sale. See further details in the table here below.

Eimskip has provided the buyer of the sister vessels Vídfoss, Stígfoss and Langfoss a seller's loan equaling 50% of the vessels purchase price with the term of six years and quarterly installments and interest payments.

	Sales price	Book value	Effect of sale and leaseback	Impairment recognized in the income statement	Vessels held for sale in the balance sheet
Vídfoss, Stígfoss and Langfoss	10,701	12,749	(458)	1,590	11,159
Godafoss and Laxfoss	3,478	4,777	(270)	1,029	3,748
	14,179	17,526	(728)	2,619	14,907

Capital commitments

In January 2017, Eimskip signed a shipbuilding contract with a Chinese shipbuilding company for the building of two new 2,150 TEUS container vessels that will be named Bruarfoss and Dettifoss. The contract price of each vessel is approximately USD 32.0 million or EUR 28.5 million. The first vessel, Dettifoss, is expected to be delivered during the second quarter of 2020 and the second vessel, Bruarfoss, is expected to be delivered in the third quarter of 2020. The payment profile of the vessels is that 40% of the contract price is paid during the building period and 60% upon delivery. As of the end of December 2019, USD 25.6 million or EUR 22.8 million has been paid towards the agreements and capitalized as property, vessels and equipment. In April 2017, Eimskip secured the financing of the vessel building with a German bank, KfW IPEX Bank GmbH, for 80% of the contract price with a 15 year term.

Notes

23. Leases

Lease categories

Eimskip leases vessels, buildings and cold storages, land, vehicles and equipment under operating leases.

Vessels: Eimskip charters vessels for use in the sailing system. The lease terms and the remaining lease terms on the date of the initial application, varies between 4 months and 5 years.

Buildings and cold storages: Eimskip leases buildings for regional offices and cold storages for use in logistics. The lease terms and the remaining lease terms on the date of the initial application, varies between 1 and 20 years.

Land: Eimskip leases land for operations of terminal areas. The lease terms and the remaining lease terms on the date of the initial application, varies between 1 and 50 years.

Vehicles and equipment: Eimskip leases vehicles and containers for use in its logistics and terminal operations. The lease terms and the remaining lease terms on the date of the initial application, varies between 1 and 8 years.

Short-term leases and leases of low-value assets

Eimskip has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, with the exception of vessel leases that have a lease-term that varies between 4 months and 5 years. Eimskip has elected not to recognize right-of-use assets and lease liabilities of low-value assets. The expenses due to low-value and short term leases can be found in the table below.

Leases not yet commenced

Eimskip has committed to leases that have not yet commenced which will lead to a right-of-use asset and a lease liability of 23.6 million EUR.

Lease expenses in the Income Statement

	2019	2018
Depreciation of right-of-use assets	11,870	1,248
Interest on lease liabilities	1,873	491
Exemption of low-value lease	2,297	-
Exemption of lease with 12 months or shorter terms	1,662	-
Operating leases, expensed on a straight-line basis (previous IAS 17)	-	16,791
Total expenses due to leases in the Income Statement	17,702	18,530

Cash outflow for leases

	2019	2018
Repayment of leases in the cash-flow statement	(13,076)	(1,181)
Lease payments of low-value assets and short-term leases	(3,959)	-
Operating lease payments (previous IAS 17)	-	(16,791)
Total cash outflow for leases	(17,035)	(17,972)

24. Related parties

The Company's largest shareholders Samherji Holding ehf. with 27.67% shareholding and Lífeyrissjóður verzlunarmanna with 15.19% shareholding of outstanding shares are considered related parties, as well as subsidiaries, material equity accounted investees and key management personnel. Intercompany transactions with subsidiaries are eliminated in the consolidation.

Transactions with the largest shareholder Samherji Holding ehf. and related companies during the year amounted to EUR 10.4 million and receivables at year-end amounted to EUR 2.1 million. Transactions with material equity accounted investees amounted to EUR 2.5 million and payables at year-end amounted to EUR 0.0 million. Transactions with related parties are on arm's length basis.

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

Notes

24. Related parties, continued

Fee paid to the Board of Directors

	Fee in ISK		Fee in EUR		Shares at year-end*
	2019	2018	2019	2018	2019
Baldvin Thorsteinsson, Chairman	7,338	3,382	53	26	160,000
Hrund Rudolfsdóttir, Vice-Chairman	7,900	6,073	58	48	0
Gudrún Ó. Blöndal, Board Member	5,925	1,975	43	15	0
Lárus L. Blöndal, Board Member	5,820	5,715	42	45	3,190
Óskar Magnússon, Board Member	2,480	0	21	0	15,000
Jóhanna á Bergi, Alternate of the Board	0	537	0	4	0
Vilhjalmur Vilhjálmsson, Alternate of the Board	3,000	0	24	0	0
Richard Mark D'Abo, former Chairman	0	6,791	0	53	0
Víglundur Thorsteinsson, former Vice-Chairman	0	5,110	0	40	0
Helga Melkorka Óttarsdóttir, former Board Member	0	3,094	0	24	0
Marc J. Smernoff, former Alternate of the Board	0	2,273	0	18	0
Philip G. Quinlan, former Alternate of the Board	0	577	0	5	0

Salaries and benefits paid to Executive Management

2019	In ISK		In EUR		Shares at year-end*
	Base salary	Other **	Base salary	Other	year-end*
Vilhelm Már Thorsteinsson, CEO	33,938	8,970	247	65	66,050
Five VP's of the Company and the CFO ***	209,716	45,722	1,528	333	974,308

2018	In ISK		In EUR		Shares at year-end*
	Base salary	Other **	Base salary	Other	year-end*
Gylfi Sigfússon, former CEO	64,264	13,727	503	107	9,615
Four VP's of the Company and the CFO ***	177,321	42,638	1,388	334	974,308

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

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

*** Hilmar Pétur Valgardsson COO of Operations, Bragi Thór Marinósson EVP of International Operations and Logistics, Elín Hjálmsdóttir EVP of Human Resources, Matthías Matthíasson former VP of Sales and Marketing, Guðmundur Nikulásson EVP of Iceland Domestic Operations and Logistics and Egill Orn Petersen CFO (not included in 2018 figures).

25. Auditor's fees

	2019	2018
Audit of the Financial Statements for the relevant fiscal year	998	894
Other services	293	357
	<u>1,291</u>	<u>1,251</u>
Thereof fee to the auditor of the Parent Company	558	550

26. Group entities

At year-end the Company owned directly ten subsidiaries that are all included in the consolidation. The direct subsidiaries owned 63 subsidiaries at year-end. The Company holds the majority of voting power in all of its subsidiaries. Assets, liabilities, revenues and expenses in Consolidated Financial Statements that include a non-controlling interest are immaterial to the Group.

Notes

26. Group entities, continued

The Group's direct subsidiaries are as follows:

	Country of incorporation	Ownership Interest 2019	Ownership Interest 2018
Eimskip Ísland ehf.	Iceland	100%	100%
TVG-Zimsen ehf.	Iceland	100%	100%
Eimskip USA, Inc.	USA	100%	100%
Eimskip UK Ltd.	England	100%	100%
Eimskip Holding B.V.	The Netherlands	100%	100%
Eimskip Asia B.V.	The Netherlands	80%	80%
P/f Skipafélagid Føroyar	Faroe Islands	100%	100%
Harbour Grace CS Inc.	Canada	51%	51%
Eimskip REIT ehf.	Iceland	100%	100%
Sæferdir ehf.	Iceland	100%	100%

As a result of a purchase price allocation for acquisition in subsidiaries, Eimskip has recognized in the statement of financial position, a financial liability in the amount of EUR 4.5 million which reflects the estimated exercise price of put options issued towards non-controlling interests for their shareholding in the subsidiaries acquired. The financial liability is initially carried at fair value and classified as non-current. The fair value changes of the liability are recognized through equity. In the event that the options expire unexercised, the liability is derecognised with a corresponding recognition of a non-controlling interest in equity and to other equity.

27. Other matters

Eimskipafélag Íslands hf. and its subsidiaries, Eimskip Ísland ehf. and TVG-Zimsen ehf., have been under investigation of the Icelandic Competition Authority (ICA) for nearly a decade.

On 1 July 2019 the Company filed a court case based on Article 102 of the Icelandic criminal procedure act, claiming that the ICA's investigation is illegal and should be ceased. The claims in this case are twofold. Firstly, that ICA's investigation in its entirety is deemed illegal and should be ceased. Secondly, that seized documents from two dawn raids should be returned and all copies destroyed. On 25 October 2019 the Court of Appeal confirmed the ruling of Reykjavik District Court of dismissal of the first claim, and on 30 January 2020 the Court of Appeal rejected the Company's second claim. The civil action that was decided on 4 November 2019 to file against ICA is being heard by Reykjavik District Court.

On 13 December 2019 Eimskip received second statement of objections from ICA, which has granted the Company a continuance until 15 March 2020 to submit its objections to statement of objections I, and a continuance to submit objections to statement of objections II until 15 May 2020. Any elaboration on the potential outcome of the investigation is premature, and no information is available on potential fines, or if they will materialize. The investigation has had immaterial effect on the Company's Financial Statements.

On 11 May 2018 the CEO and the Executive Vice President of International Operations went to the office of the District Prosecutor for formal questioning and both received a status of defendant on the same day. The investigation of the District Prosecutor concerns Article 10 of the competition law and whether concerted practices, regarding price or distortion of markets, has taken place.

Tax related matters

The Icelandic Directorate of Internal Revenue ruled in December 2017 regarding the taxation of the operation of foreign vessel subsidiaries of Eimskip. The Internal Revenue Board confirmed the ruling in March 2019. Due to this ruling Eimskip expensed EUR 3.4 million in the Income Statement in the first quarter of 2019 and has paid EUR 0.7 million as well as utilized EUR 2.7 million of tax-losses carried forward. Eimskip disagrees with the ruling of the Internal Revenue Board and is in the process of referring the case to the Icelandic courts.

28. Subsequent events

There are no subsequent events to report.

Notes

29. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements, and have been applied consistently by Group entities, except as described in note 4.

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

a. Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

(iv) Investment in equity-accounted investees

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

b. Foreign currency

(i) Foreign currency transactions

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

(ii) Foreign operations

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

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

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

Notes

29. Significant accounting policies, continued

c. Financial instruments

(i) Non-derivative financial assets

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

(ii) Derivative financial instruments and hedge accounting

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

The Group holds derivative financial instruments to hedge a part of its exposure to fluctuation in oil prices and interest rates.

When a derivative is designated as a cash flow hedging instrument, the effective portion of the changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedging reserve in equity. Any ineffective portion of the changes in the fair value of the derivative is recognized immediately in profit or loss. The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss or the hedged item affects profit or loss.

(iii) Cash and cash equivalents

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

(iv) Non-derivative financial liabilities

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

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

(v) Share capital

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

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

Notes

29. Significant accounting policies, continued

d. Property, vessels and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

e. Intangible assets

(i) Goodwill and brand names

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill and brand names are measured at cost less accumulated impairment losses. The value of the brand name „Eimskip“ and the brand names of other acquired subsidiaries are included among brand names.

(ii) Customer related intangible assets

Customer relationships and other intangible assets with finite useful lives that have been acquired as part of acquisitions are amortized using the straight line method.

(iii) Amortization

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

Software	3 - 5 years
Market and customer related	10 years

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

Notes

29. Significant accounting policies, continued

f. Leases

The Group adopted IFRS 16 *Leases* on 1 January 2019. Please refer to note 4 for further information on the implementation and the effects of transition. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

(i) Leases in which the Group is a lessee

Eimskip has recognised new assets and liabilities for its operating leases of land, vessels, buildings and equipment. The nature of expenses related to those leases will now change because Eimskip will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, Eimskip recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

(ii) Leases in which the Group is a lessor

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Eimskip is not a third-party lessor in any material instances.

(iii) Transition

Eimskip applied IFRS 16 initially on 1 January 2019 using the modified retrospective approach with the cumulative catch up approach with no impact on Retained earnings as at 1 January 2019. Therefore there is no restatement of comparative information.

Eimskip applied the practical expedient to grandfather the definition of a lease on transition. This means Eimskip has applied IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group has applied the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

g. Inventories

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

Notes

29. Significant accounting policies, continued

h. Impairment

(i) Financial assets (including receivables)

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

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

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

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

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

(ii) Non - financial assets

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

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

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

Notes

29. Significant accounting policies, continued

h. Impairment, continued

(ii) Non - financial assets, continued

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

i. Employee defined contribution plans

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

j. Provisions

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

k. Revenue

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. According to IFRS 15, revenue is recognized when control over a good or service is transferred to a customer. Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer rebates and other similar allowances.

(i) Revenue recognition in Liner services

Liner services is a door-to-door transportation process where customers can enter or exit the process whenever before the terminal handling in exports and after the terminal handling in imports. Activities included in liner services are pre-carriage, warehousing, terminal handling, container services, sea-transportation, documentation, on-carriage and distribution. Eimskip considers each activity in the liner transportation process to be a distinct performance obligation. For each activity, with the exception of sea-transportation, revenue is recognized when the performance obligation has been satisfied or at a certain point-in-time. Revenue from sea-transportation is recognized over-time in accordance with voyage days of the vessel already sailed in proportion to total estimated voyage days for the route. The consideration received for the services is allocated to each performance obligation based on tariff or stand-alone selling prices. Rebates are allocated to each performance obligation based on tariff or stand-alone selling prices.

(ii) Revenue recognition in Forwarding services

Forwarding services are an transportation solution outside Eimskip's own operating system but is materially the same process as the liner services.

Notes

29. Significant accounting policies, continued

l. Finance income and finance expense

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

Finance expenses comprise interest expense on borrowings.

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

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

m. Income tax

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

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

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

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

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

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

n. Earnings per share

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

o. Segment reporting

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

Notes

30. Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, Eimskip has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on Eimskip's Consolidated Financial Statements

- *Amendments to References to Conceptual Framework in IFRS Standards*
- *Definition of a Business (Amendments to IFRS 3)*
- *Definition of Material (Amendments to IAS 1 and IAS 8)*
- *IFRS 17 Insurance Contracts*

Quarterly statements - unaudited

Year 2019	Q1 2019*	Q2 2019*	Q3 2019*	Q4 2019	2019
Revenue	163,988	167,535	172,522	175,549	679,594
Expenses	150,766	151,706	152,210	164,363	619,045
Operating profit, EBITDA	13,222	15,829	20,312	11,186	60,549
Depreciation and amortization and impairment	(10,753)	(10,705)	(11,064)	(14,505)	(47,027)
Results from operating activities, EBIT	2,469	5,124	9,248	(3,319)	13,522
Net finance expense	(1,311)	(1,526)	29	(1,979)	(4,787)
Share of loss of equity accounted investees	(84)	85	(84)	(294)	(377)
Net earnings (loss) before income tax	1,074	3,683	9,193	(5,592)	8,358
Income tax	(3,575)	(929)	(1,990)	(857)	(7,351)
Net (loss) earnings	(2,501)	2,754	7,203	(6,449)	1,007
Year 2018	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2018
Revenue	155,532	172,631	182,164	178,827	689,154
Expenses	148,281	157,718	164,530	169,387	639,916
Operating profit, EBITDA	7,251	14,913	17,634	9,440	49,238
Depreciation and amortization	(7,807)	(7,918)	(7,896)	(8,927)	(32,548)
Results from operating activities, EBIT	(556)	6,995	9,738	513	16,690
Net finance expense	(1,114)	(901)	(1,331)	(1,577)	(4,923)
Share of loss of equity accounted investees	(670)	(345)	(170)	(568)	(1,753)
Net (loss) earnings before income tax	(2,340)	5,749	8,237	(1,632)	10,014
Income tax	754	(1,134)	(1,968)	(264)	(2,612)
Net (loss) earnings	(1,586)	4,615	6,269	(1,896)	7,402

* Operating expenses, depreciation and finance expenses have been restated in Q1 2019, Q2 2019 and Q3 2019 with immaterial effect on net loss or earnings. Please refer to note 4.a., on the adjustment on the implementation of IFRS 16 and subsequent periods and the table here below which summarizes the effects.

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Total
Expenses	(2,300)	(2,663)	(2,407)	(2,990)	(10,360)
Depreciation, amortization and impairment	2,325	2,686	2,630	2,669	10,310
Net finance expense	(12)	80	(76)	(71)	(79)
Effect on net (loss) earnings	13	103	147	(392)	(129)
Right-of-use assets	(5,317)	(6,794)	(4,514)	(11,772)	(11,772)
Lease liabilities	5,330	6,910	4,777	11,643	11,643
Net accumulated effect on the Balance Sheet	13	116	263	(129)	(129)

Corporate Governance Statement

About Eimskip

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

Corporate Governance

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

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

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

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

Laws and regulations

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

Eimskip's Financial Statements

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

Shareholder Relations

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

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

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

The Board of Directors of Eimskip

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

Board meetings are called with one week notice. A meeting schedule is made for the financial year in advance. The invitation contains the agenda for the meeting. The CEO and the CFO attend Board meetings and other members of the Executive Management attend as required. In 2019, the total number of Board meetings was 18 and the Board was competent to make decisions in all meetings.

Corporate Governance Statement

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

Annually, the Board of Directors conducts an assessment of its work, size, composition and procedures and also evaluates the work of the Company's CEO, the Company's operations and development and whether it is in line with the Company's objectives. The assessment entails e.g. evaluation of the strengths and weaknesses of the Board's work and practices and takes into consideration the work components the Board believes may be improved. The evaluation is built on self-assessment, but the assistance of outside parties may be sought as appropriate. The evaluation includes an examination of whether the Board has operated in accordance with its Rules of Procedure and how the Board operates in general. Examination must be made whether important matters relating to the Company have been adequately prepared and if sufficient time is provided for discussions within the Board. Additionally, individual Directors must be considered with respect to both attendance and participation in meetings. The assessment for the financial year 2019 was concluded in February 2020.

Main responsibilities of the Board of Directors

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

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

Rules of Procedure for the Board of Directors

The Board of Directors has established its Rules of Procedure which were amended and approved at a Board meeting on 26 April 2019. A copy can be obtained from the Company's website, www.eimskip.com.

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

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

Members of the Audit Committee are Lárus L. Blöndal, Chairman, Vilhjálmur Vilhjálmsson and Ólafur Viggó Sigurbergsson. In 2019, the Audit Committee held a total of four meetings.

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

Members of the Remuneration Committee are Hrund Rudolfsdóttir, Chairman, Vilhjálmur Vilhjálmsson and Guðrún Blöndal. The Remuneration Committee held two meetings in 2019.

Corporate Governance Statement

Nomination Committee

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

The Board of Directors

Baldvin Þorsteinsson, Chairman of the Board

Baldvin was born in 1983 and lives in Iceland. He has worked for Samherji hf. in various roles since 2007 after earning a BS degree in Industrial Engineering from the University of Iceland. In the years 2013-2016, he was the CEO of Iceland Drilling, of which Samherji is a major shareholder. When rejoining Samherji in 2016, he was made Manager of Business Development. Baldvin joined the board of Ólíuverzlun Íslands in 2011 and became the board's chairman in 2017, until he stepped down at the end of 2018 when the company was sold. Baldvin has been on the Board of Directors since 6 September 2018 and currently serves as the Chairman of the Board and a member of the Remuneration Committee. He owns 160,000 shares in the Company, but no share options, and is not independent of Samherji Holding ehf., which own, in total, 50.6 million 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 2001 to 2006. She is currently a board member of Iceland Chamber of Commerce, Artasan hf., Distica hf. and Lumina ehf. Hrund took her Master's degree in International Marketing and Management at Copenhagen Business School in 2000 and AMP in IESE NY in 2018. She also earned a Cand.Oecon. degree at the University of Iceland in 1994. Hrund has been on the Board of Directors since 3 April 2013 and currently serves as the Vice Chairman of the Board and as a Chairman of the Remuneration Committee. She is an independent Board member and does neither own shares nor share options in the Company. She has no interest links with the Company's main clients, competitors or major shareholders.

Guðrún Ó. Blöndal

Guðrún was born in 1960 and lives in Iceland. She has been on the Board of Directors of Eimskip since 6 September 2018. Previously she was a CEO of Nasdaq CSD Iceland (Nasdaq Central Securities Depository Iceland) from 2013 to March 2018, and a CEO of Arion Custody Services, subsidiary of Kaupthing hf., from 2002 until it merged with Arion bank hf. in 2012. She held various positions in Kaupthing hf. from 1984 to 2002 such as an Executive Director, Corporate Director of Human Resources, Director of Marketing and Director in Asset Management. In 2012 until 2013 she was a Board Member of the Enterprise Investment Fund slhf., Reginn hf., Míla ehf., Vörður Insurance Company and Vörður Life Insurance. Guðrún is an alternate board member of Landsbankinn hf. Guðrún earned a Cand.Oecon degree at the University of Iceland in 1990. Guðrún currently serves as a member of the Remuneration Committee. She is an independent Board member and does neither own shares nor share options in the Company. Apart from being an alternate board member in Landsbankinn she has no interest links with the Company's main clients, competitors or major shareholders.

Lárus L. Blöndal

Lárus was born in 1961 and lives in Iceland. He is a Supreme Court Attorney and a Partner at Juris Law Offices. Lárus was a Partner at Almenna lögfræðistofan from 1990 to 2008. Lárus is currently a board member of Orkusalan hf. and the Chairman of the board of ISFI (Icelandic State Financial Investments). He has been a member of the Competition Appeals Committee since 2000 and its Vice-Chairman since 2009 and a member of the National Olympics and Sport Association's executive committee since 2001, becoming its Vice-President in 2006 and its President in 2013. He has previously been a board member of the Icelandic Bar Association, the University of Iceland's Human Rights Institute, the University of Iceland's Research Centre in Environmental and Natural Resources law, Hótel Borg ehf., Fastus ehf., 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 and a District Court Attorney since 1990. He 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 currently serves as the Chairman of the Audit Committee. He is an independent Board member and owns 3,190 shares in the Company but no share options. He has no interest links with the Company's main clients, competitors or major shareholders.

Corporate Governance Statement

Óskar Magnússon

Óskar was born in 1954 and lives in Iceland. He is a well-known writer and has published two collections, short stories and two novels in recent years. He is a farmer and co-owner and chairman of Kerfélagið ehf., the owner of the tourist nature attraction Kerid Crater. Óskar is currently a vice chairman of the board of Samherji hf., a board member of Samherji Holding ehf. and a chairman of the Icelandic landowners Association. He has previously been a board member of the Icelandic Bar Association. Óskar was Publisher/CEO and major shareholder of Árvakur hf. from 2009 to 2015, President/CEO of Tryggingamiðstöðin hf. and TM Life Insurance hf. from 2004 to 2007, President/CEO of Vodafone Iceland from 2001 to 2004, Executive Chairman of Baugur from 1998 to 1999 and President/CEO of Hagkaup hf. supermarkets, that later became part of Baugur Corporation, from 1993 to 1998. Óskar has been a Supreme Court Attorney since 1993. He graduated with an LL.M. degree in International Business Law from George Washington University Law School in 1986, and with a Cand.jur. degree from the University of Iceland in 1983. He owns 15,000 shares in the Company, but no share options. Óskar is not independent of Samherji Holding ehf., which own, in total, 50.6 million shares in the Company.

Vilhjalmur Vilhjálmsson, Alternate Member of the Board

Vilhjalmur was born in 1953 and lives in Iceland. He is a Chairman of the Board of Directors of Hampiðjan hf. Vilhjalmur was the CEO of HB Grandi hf. from 2012 to 2018, and a pelagic director of HB Grandi hf. from 2005 to 2012. Before joining HB Grandi hf. Vilhjalmur was office manager and later the CEO of Tangi, Vopnafjörður based fishing and fish processing company from 2001 to 2004. Vilhjalmur started his career in fisheries at age 11 and worked as a seaman from age of 15 alongside his studies. Later Vilhjalmur started working ashore as sales director at Fiskafurðir ehf Fishproducts Ltd. and at the Federation of Icelandic fishing vessels owners where he worked for 8 years before joining Tangi. Vilhjalmur is a Fish Industry Technic from the Icelandic Technical College, and is a master of navigation from Reykjavik Navigational School. He is an independent Board member and does neither own shares nor share options in the Company. He has no interest links with the Company's main clients, competitors or major shareholders. Vilhjalmur is a member of the Audit Committee and the Remuneration Committee.

Jóhanna á Bergi, Alternate Member of the Board

Jóhanna was born in 1970 and lives in the Faroe Islands. Jóhanna is the CEO of Atlantic Airways Ltd. and has been since 2015. 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 Kósín 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 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 Board member and does neither own shares nor share options in the Company. She has no interest links with the Company's main clients, competitors or major shareholders.

The Chief Executive Officer

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

Corporate Governance Statement

Vilhelm Már Thorsteinsson, Chief Executive Officer

Vilhelm was born in 1971 and lives in Iceland. He joined Eimskip as the Company's CEO in January 2019. Previously he worked at Íslandsbanki, a major bank in Iceland, and predecessors for twenty years. He was Managing Director of Corporate & Investment Banking at Íslandsbanki from 2017 to 2019 and Managing Director of Corporate Banking from 2008 to 2017. Vilhelm earned MBA degree from Pace University in New York, B.Sc degree in Business Management, Majoring in Logistics, from Reykjavík University and is a licensed Securities broker. He is a board member or CEO, or both, of various subsidiaries of Eimskipafélag Íslands hf. Vilhelm owns 66.050 shares in the Company but no share options.

The Executive Management

The Executive Management of Eimskip consists of the Chief Executive Officer and the Directors of Finance, Operations, International Operations, Human Resources, Iceland Sales and Business Management and Iceland Domestic Operations. All the executives have an extensive experience within the Company.

Egill Örn Petersen is the Chief Financial Officer, Hilmar Pétur Valgarðsson is the Chief Operational Officer, Bragi Thór Marinósson is the Executive Vice President of International Operations, Elín Hjálmsdóttir is the Executive Vice President of Human Resources, Björn Einarsson is the Executive Vice President of Iceland Sales and Business Management and Guðmundur Nikulásson is the Executive Vice President of Iceland Domestic Operations.

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

Internal Control and Risk Management

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

Risk management is the process of analyzing and assessing 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 is 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.

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 are to have access to the Company's books and documents at all times. They must examine the Company's Consolidated Financial Statements in accordance with International Standards on Auditing. Significant findings regarding accounting and internal control deficiencies are reported to the Board of Directors through the Audit Committee. Independent auditors are not allowed to own shares in the Company.

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

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

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.

Corporate Governance Statement

Information on violation of rules determined by the applicable authority

The Competition Authority in Iceland has a case concerning the Company in process, of which the outcome is not yet determined. On 16 December 2019 the Supreme Court of Iceland rendered a judgement and confirmed the decision of the Financial Supervisory Authority, from March 2017, that the Company had violated Art. 122.1 of the Securities Act no. 108/2007 by not disclosing inside information in a timely manner.

Corporate Social Responsibility

Eimskip is a registered participant of the UN Global Compact, the United Nation's initiative for social responsibility with respect to human rights, labor, environment and anti-corruption. With its participation, the Company has committed to manage its business operations so that the UN Global Compact and its Ten Principles become a part of the Company's strategy, culture and day-to-day operations. The Company has also committed to advocate the UN Global Compact and its Ten Principles through available communication channels and communicate annually on implementation efforts.

Eimskip's Corporate Social Responsibility (CSR) Policy is based on the Nasdaq ESG Reporting Guide, published in March 2017. The Nasdaq voluntary reporting guide focuses on 33 environmental, social and governance (ESG) performance indicators.

CSR Policy

Eimskip has for over a century offered reliable transportation services and the Company's vision is to reach excellence in transportation solutions and services. Eimskip focuses on creating shared value for its shareholders, customers, employees, society and other stakeholders.

Environment

Eimskip respects its environment and seeks to limit its impact on the ecosystem and reduce its environmental footprint.

Society

Eimskip offers employees equal opportunities in a safe and healthy working environment and endeavors to be a good corporate citizen, recognizing its responsibility to work in partnership with the communities in which it operates.

Governance

Eimskip strives to ensure open and transparent relationship between the Company's management, its Board of Directors, its shareholders and other stakeholders.

In 2020, the focus will be on further implementing the Company's CSR policy within the Group, with increased measures and a strong ambition to achieve set goals, regarding reduction and publishing of the Company's ecological footprint. To support global and local environmental initiatives, Eimskip signed the Reykjavík Declaration on Climate Issues in November 2015 and has 2019 been working systematically on reducing its ecological footprint.

In 2019 a team of employees was appointed to review, select, and connect the operation and policies to the United Nations sustainable development goals. The emphasis will be on four goals that are related to the operation and policies. Regarding that, measurable projects will be worked on and implemented within Eimskip in 2020.

Code of Conduct

The Board of Directors approved a revision of the Company's Code of Conduct in February 2018. The Code of Conduct closely links to the Company's values: Achievement, Cooperation and Trust. The Code is also based on Eimskip's aim to secure 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 and show concern for society with social responsibility and reduced ecological footprint.

Eimskip's Code of Conduct focuses on Human Resources, the Market and on Social Responsibility. It includes the Company's Human Rights Policy and its Anti-Corruption and Bribery Policy. The Code of Conduct is accessible on the Company's website, www.eimskip.com.

Non-Financial Reporting

About Eimskip

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

Eimskip was founded in 1914 and is a publicly traded company with its shares listed at Nasdaq Iceland.

Employees

Eimskip runs a network of 57 offices in 18 countries on four continents, operates 20 vessels, and has about 1,785 full-time equivalents (FTE's). The employee group is diverse, with a variety of backgrounds in regard to education and experience, but all employees work together to provide customers with outstanding services.

Eimskip respects human rights and operates according to its various policies related to employee's rights and welfare. The central policies are Human Resource Policy, Salary Policy, Equal Opportunities Policy, Health Policy, Occupational Safety, and Security and Prevention Policy.

Eimskip aims to offer an attractive workplace where employees live and work by the values of the company, Achievement, Cooperation, and Trust every day. Through that, employees are ambitious and innovative, work in active collaboration, and strive to accomplish goals in a responsible but enjoyable way.

Corporate Social Responsibility

Eimskip is a registered participant of the UN Global Compact, the United Nation's initiative for social responsibility with respect to human rights, labor, environment and anti-corruption. With its participation, the Company has committed to manage its business operations so that the UN Global Compact and its Ten Principles become a part of the Company's strategy, culture and day-to-day operations. The Company has also committed to advocate the UN Global Compact and its Ten Principles through available communication channels and communicate annually on implementation efforts.

Eimskip's Corporate Social Responsibility (CSR) Policy is based on the Nasdaq ESG Reporting Guide, published in March 2017. The Nasdaq voluntary reporting guide focuses on 33 environmental, social and governance (ESG) performance indicators.

CSR Policy

Eimskip has for over a century offered reliable transportation services and the Company's vision is to reach excellence in transportation solutions and services. Eimskip focuses on creating shared value for its shareholders, customers, employees, society and other stakeholders.

Environment

Eimskip respects its environment and seeks to limit its impact on the ecosystem and reduce its environmental footprint.

Society

Eimskip offers employees equal opportunities in a safe and healthy working environment and endeavors to be a good corporate citizen, recognizing its responsibility to work in partnership with the communities in which it operates.

Governance

Eimskip strives to ensure open and transparent relationship between the Company's management, its Board of Directors, its shareholders and other stakeholders.

Environment

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 fast and the transportation industry, as well as others, realizes how important environmental issues are for the world today.

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 Reykjavik 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.

Non-Financial Reporting

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 has been stepped up in recent years, 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. Digitization of emission and waste-registration data from the supply chain enables continuous monitoring of measures and provide reliable and transparent information on the status.

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 calculation of the Company's carbon footprint is presented as carbon intensity per transported unit in kg CO₂ equivalent (e) per ton of transported units.

Eimskip aim is to reduce its footprint in the coming years, with a goal of 19% accumulated reduction in 2022 and 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.

In 2017, Eimskip published an efficient transport calculator that provides the Company's customers with carbon footprint related to their transport.

Code of Conduct

The Board of Directors approved a revision of the Company's Code of Conduct in February 2018 to the Company's values: Achievement, Cooperation and Trust. The Code is also based on Eimskip's aim to secure 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 and show concern for society with social responsibility and reduced ecological footprint.

Eimskip's Code of Conduct focuses on the Workplace, the Market and on Corporate Social Responsibility. It includes the Company's Human Rights Policy and its Anti-Corruption and Bribery Policy.

Human Rights Policy

Eimskip respects human rights. The objective of the policy is twofold:

1. To secure the human rights of Eimskip's employees
2. To ensure that Eimskip complies with laws and regulations on human rights

Eimskip commits itself to complying with all applicable laws and regulations on human rights concerning freedom of association, forced and compulsory labor, child labor and discrimination in respect of employment and occupation.

Eimskip encourages all its employees to report any suspected human rights violation with the Company.

The Company requires its suppliers and subcontractors to respect human rights.

Anti-Corruption and Bribery

The Board of Directors approved a revision of the Company's Code of Conduct in February 2018. The Code of Conduct closely links to the Company's values: Achievement, Cooperation and Trust. The Code is also based on Eimskip's aim to secure 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 and show concern for society with social responsibility and reduced ecological footprint.

Non-Financial Reporting

Due Diligence

Eimskip and its vessels must comply with the International Safety Management (ISM) Code. The Code is an intrinsic part of the International Maritime Organization's (IMO) SOLAS Convention in its efforts to ensure, maintain and effectuate safety for the seafarers as well as simultaneously providing an accidental pollution free zone for the sector entirely. External audits are performed to verify the ISM Code compliance.

The company Klappir Green Solutions hf. works with Eimskip on environmental management and certifies the Company's environmental management solution. This is a digital data collection and environmental compliance solution, covering energy and waste management of vessel fleet, truck fleet, terminal assets, warehouses and office space. The assessment covers:

- Energy management compliant to MARPOL Annex I, Annex VI, EU MRV and local law including data transparency, accuracy and accountability on fuel receiving and consumption of vessel fleet, truck fleet and terminal assets and data transparency, accuracy and accountability on electricity use and use of district heating for terminal assets, warehouses and offices.
- Waste management compliant to MARPOL Annex V and local law including data transparency, accuracy and accountability on waste sorting and disposal of vessel fleet and data transparency, accuracy and accountability on waste sorting, recycling and disposal of terminals, warehouses and offices.
- Water management compliant to local law including data on cold water consumption based on manual readings.

Eimskip has a First Response Team, which duty is to respond to various accidents on sea and land. The team's purpose is to ensure and assist on proper first response and limit accidents to people and damages to properties, cargo and the environment. Also, it is the team's responsibility to respond to cyber incidents.

The Company's Loss Prevention Team meets regularly to investigate losses, damages and accidents and follow up on necessary changes and/or improvements.

Eimskip's Risk Committee is responsible for overseeing the operational and financial risks in the daily operation and make proposal for changes to reduce or prevent risk. In 2019 the Risk Committee issued a new Financial Risk Guidelines which were approved by the Board of Directors.

Eimskip is a registered participant of the United Nations Global Compact and has committed to communicate annually on the implementation efforts of the UN Global Compact's Ten Principles.