Consolidated Financial Statements

2008

Skipti hf.
Ármúla 25
108 Reykjavík
ID number: 460207-0880

Contents

Endorsement by the Board of Directors and CEO

The Consolidated Financial Statements of Skipti hf. for the year 2008 consist of the Consolidated Financial Statements of Skipti hf. and its subsidiaries, together referred to as the Company. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU.

Skipti was listed on OMX ICE on 19 March 2008, following the share offering. The offering and stock market listing of the company was in compliance with the provisions of the purchase agreement which was originally entered into upon the sale of the government's 98,8% holding in Landssími Íslands hf. (now Skipti) in 2005.

On 19 March 2008, the Company announced that it had received a voluntary takeover bid from Exista hf, the largest shareholder, for the entire share capital of Skipti hf. at ISK 6,64 per share which was the same price as in Skipti hf. share offering. The shares were paid for with new shares in Exista hf. at ISK 10,1. The Company's shares were delisted from OMX Nordic Exchange Iceland hf. (OMX ICE) on 6 June 2008.

Skipti's net loss for the year amounted to ISK 6.424 million compared to net profit of 3,082 million for prior year. According to the Consolidated Balance Sheet the Company´s assets at year end amounted to ISK 128.657 million compared to ISK 97,641 million at prior year end. The equity at year end amounted to ISK 36.547 million compared to ISK 32,757 million at prior year end. The Company's equity ratio is 28%. As regards to changes in the equity of the Company, the Board refers to the Consolidated Financial Statements.

At year end Exista hf ownes 100% shares of the company but there were 1,036 shareholders at the beginning of the year.

It is our opinion that the accounting policies used are appropriate and that these Consolidated Financial Statements present all the information necessary to give a true and fair view of the Company's assets and liabilities, financial position and operating performance, as well as describe the principal risks and uncertainties faced by the Company.

The Board of Directors and the CEO of Skipti hf. have today discussed and approved the Consolidated Financial Statements for the year 2008 with their signatures.

Reykjavík, 21 April 2009

Board of Directors

Lýður Guðmundsson
Chairman of the Board

Rannveig Rist

Erlendur Hjaltason

Hildur Árnadóttir

Sigurgeir Brynjar Kristgeirsson

Brynjólfur Bjarnason
CEO

Independent Auditor's Report

To the Board of Directors and shareholders of Skipti hf.

Report on the Financial Statements
We have audited the accompanying financial statements of Skipti hf., which comprise the balance sheet as at December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of Skipti hf. as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Without qualifying our opinion, we draw attention to note 18 to the consolidated financial statements, which states that the Company is in a disagreement with Glitnir bank regarding derivative agreements.

Reykjavík, 21 April 2009.

Deloitte hf.

Hilmar A. Alfreðsson
State Authorized Public Accountant

Consolidated Income Statement
for the year 2008

	Notes	2008	2007
Net sales		39.012.846	32.719.079
Cost of sales		(23.278.076)	(18.972.885)
Gross profit		15.734.770	13.746.194
Other operating income		613.823	638.690
Operating expenses		(11.339.040)	(9.093.817)
Impairment losses	**13**	(2.397.368)	0
Operating profit		2.612.185	5.291.067
Finance costs	**8**	(9.499.679)	(3.274.070)
Share of loss in associates		(119.023)	(26.003)
(Loss) profit before tax		(7.006.517)	1.990.994
Income tax	**9**	582.998	(304.933)
(Loss) profit for the year from continuing operations		(6.423.519)	1.686.061
Discontinued operation			
Profit for the year from discontinued operations		0	1.395.755
(Loss) profit for the year		(6.423.519)	3.081.816
Attributable to:			
Equity holders of the parent		(6.474.019)	3.045.801
Minority interest		50.500	36.015
		(6.423.519)	3.081.816
Earnings per share:			
(Loss) earnings per share	**10**	(0,75)	0,43

Skipti hf. - Consolidated Financial Statements 2008 5 All amounts are in thousands of ISK

Consolidated Balance Sheet at 31 December 2008

	Notes	31.12.2008	31.12.2007
Assets			
Non-current assets			
Property,plant and equipment	11	16.452.408	15.556.136
Intangible assets	13	71.260.406	66.765.472
Investments in associated companies	15	52.417	471.421
Investments in other companies	16	336.403	1.972.961
Other investment		370.690	279.597
Deferred tax assets	22	513.881	0
Non-current assets		88.986.205	85.045.587
Current assets			
Inventories	17	1.277.367	1.133.581
Accounts receivables		6.478.203	5.313.812
Other assets	18	11.422.731	879.034
Cash and cash equivalents		20.492.583	5.269.137
Current assets		39.670.884	12.595.564
Total Assets		128.657.089	97.641.151
Equity and Liabilities			
Equity			
Share capital	19	8.724.523	7.365.146
Reserves		9.022.504	1.383.522
Translation reserves		720.174	(366.063)
Retained earnings		17.561.846	24.005.049
Equity holders of the parent		36.029.047	32.387.654
Minority interest		518.170	368.900
Total Equity		36.547.217	32.756.554
Non-current liabilities			
Borrowings	20	77.364.187	50.435.129
Deferred tax liabilities	22	246.321	304.731
Non-current liabilities		77.610.508	50.739.860
Current liabilities			
Bank loans		1.108.571	2.051.484
Accounts payables		5.432.384	4.674.284
Current maturities of borrowings	20	3.573.319	2.785.350
Other current liabilities		4.385.090	4.633.619
Current liabilities		14.499.364	14.144.737
Total liabilities		92.109.872	64.884.597
Total equity and liabilities		128.657.089	97.641.151

Skipti hf. - Consolidated Financial Statements 2008 6 All amounts are in thousands of ISK

Consolidated Statement of Changes in Equity
for the year 2008

	Share capital	Reserves	Translation reserves	Retained earnings	Equity holders of the parent	Minority interest	Total equity
Total equity 1.1.2007	7.000.000	0	0	21.113.259	28.113.259	1.333.614	29.446.873
Profit for the year				3.045.801	3.045.801	36.015	3.081.816
Change in minority interest					0	(1.000.729)	(1.000.729)
Translation reserve			(366.063)		(366.063)		(366.063)
Recognition of share based payments		65.200			65.200		65.200
New capital issued	368.421	1.164.849			1.533.270		1.533.270
Provision for statutory reserve		154.011		(154.011)	0		0
Buyback of ordinary shares	(3.275)	(538)			(3.813)		(3.813)
Total equity 31.12.2007	7.365.146	1.383.522	(366.063)	24.005.049	32.387.654	368.900	32.756.554
Total equity 1.1.2008	7.365.146	1.383.522	(366.063)	24.005.049	32.387.654	368.900	32.756.554
Loss for the year				(6.474.019)	(6.474.019)	50.500	(6.423.519)
Change in minority interest				30.816	30.816	52.167	82.983
Translation reserve			1.086.237		1.086.237	51.731	1.137.968
Dividend paid					0	(5.128)	(5.128)
Recognition of share based payments		26.128			26.128		26.128
New capital issued	1.359.377	7.612.854			8.972.231		8.972.231
Total equity 31.12.2008	8.724.523	9.022.504	720.174	17.561.846	36.029.047	518.170	36.547.217

Skipti hf. - Consolidated Financial Statements 2008 7 All amounts are in thousands of ISK

Consolidated Cash Flow Statement
for the year 2008

	2008	2007
Cash flow from operating activities		
Operating profit	2.612.185	5.291.067
Operational items not affecting cash flow:		
Depreciation and amortisation	6.353.780	4.202.025
Gain on sale of fixed assets	(11.258)	(2.337)
Changes in current assets and liabilities	1.147.188	(476.278)
Cash generated by operation	10.101.895	9.014.477
Interest income received during the year	820.272	426.591
Payments of taxes during the year	(138.571)	0
Interest expenses paid during the year	(2.429.369)	(2.550.553)
Net cash from operating activities	8.354.227	6.890.515
Investing activities		
Investment in property, plant and equipment	(4.151.473)	(3.490.094)
Investment in intangible assets	(707.086)	(358.567)
Proceeds from sale of property, plant and equipment	66.466	42.510
Changes in other investments	(128.088)	41.909
Proceeds from sale of investments	18.453.645	0
Changes in investment in other companies	(31.976)	(474.762)
Investing activities	13.501.488	(4.239.004)
Financing activities		
New borrowings	89.480	3.085.347
Payments of non-current liabilities	(7.157.184)	(3.262.920)
Bank loans, (decrease) increase	(15.439)	1.791.584
Buyback of ordinary shares	0	(3.108)
Issue cost of new shares	(13.213)	0
Financing activities	(7.096.356)	1.610.903
Increase in cash and cash equivialents	14.759.359	4.262.414
Effects of exchange rate changes on the balance of cash	464.087	(46.657)
Cash and cash equivialents at the beginning of the year	5.269.137	1.053.380
Cash and cash equivialents at the end of the year	20.492.583	5.269.137

Skipti hf. - Consolidated Financial Statements 2008 8 All amounts are in thousands of ISK

Notes to the Consolidated Financial Statements

1. General information

Skipti hf. is a limited liability company incorporated in Iceland. The Consolidated Financial Statements for the year ended 2008 comprise Skipti hf. (the parent) and its subsidiaries (together referred as the Company).

Amounts in the Consolidated Financial Statements are stated in Icelandic Króna, which is the Company's functional currency.

2. Adoption of new and revised Standards

2.1 Standards and Interpretations effective in the current period

The financial statements are presented in accordance with the new and revised standards (IFRS / IAS) and new interpretations (IFRIC), applicable in the year 2008. These standards and interpretations are:

IAS 39 (revised) - *Financial Instruments: Recognition and Measurement*
IFRIC 11, IFRS 2 - *Group and treasury share transactions*
IFRIC 12 - *Service concession arrangements*
IFRIC 14 - *IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction.*

The adoption of the new and revised standard and interpretations has not led to changes in the accounting policies.

2.2 Standards and Interpretations in issue not yet adopted

Following is an overview of new or revised standards and interpretations that are not yet effective:

	Effective:
IFRS 2 (revised 2008) - *Share-based Payment*	1 January 2009
IFRS 3 (revised 2008) - *Business Combinations*	1 July 2009
IFRS 8 - *Operating Segments*	1 January 2009
IAS 1 (revised 2008) - *Presentation of Financial Statements*	1 January 2009
IAS 23 (revised 2008) - *Borrowing Costs*	1 January 2009
IAS 27 (revised 2008) - *Consolidated and Separate Financial Statements*;	
IAS 39 (revised 2008) - *Financial Instruments: Recognition and Measurement*	1 January 2009

Minor changes to various standards as a result of the IASB's annual improvement process (2008). Most changes take effect for periods beginning 1 January 2009 or later.

IFRIC 13 - *Customer Loyalty Programs*	1 July 2008
IFRIC 15 - *Agreements for the Construction of Real Estate*	1 January 2009
IFRIC 16 - *Hedges of a Net Investment in a Foreign Operation*	1 October 2008
IFRIC 17 - *Non-cash Assets to Owners*	1 July 2009

Revised IAS 1 will have the impact that all items of income and expense (including those recognised outside of profit or loss) must be presented either in a single statement as a statement of comprehensive income; or in two statements as a seperate income statement and a statement of comprehensive income.

Revised IAS 23 eliminates the previously available option to expense all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. All other borrowing costs shall be expensed.

Revised IFRS 3 states that all acquisition-related costs are to be recognised as period expenses. Implementation may also result in a change in accounting for the recognition of goodwill related to the minority share of the acquired companies, step acquisitons and partial disposal of shares in subsidiaries.

It is the management´s assessment that in general, the adoption of those new and revised standards and interpretations will have no material impact on the financial statements, except for the additional disclosure requirements for operating segments according to IFRS 8.

IFRS 8 is the only one of the above new or revised standards and interpretations that has been approved by the EU.

Skipti hf. - Consolidated Financial Statements 2008 9 All amounts are in thousands of ISK

Notes to the Consolidated Financial Statements

3. Significant Accounting Policies

3.1 Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by European Union (EU).

3.2 Basis of preparation

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilites and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out below.

3.3 Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Company.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Company's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Company except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3.4 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3.5 Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate) are not recognised, unless the Company has incurred legal or constructive obligations or made payments on behalf of the associate

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a company entity transacts with an associate of the Company, profits and losses are eliminated to the extent of the Company's interest in the relevant associate.

3.6 Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Company's policy for goodwill arising on the acquisition of an associate is described at 3.5 above.

3.7 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3.8 Revenue recognition

Revenue from telecommunication services is recognized in profit or loss when the service is performed. Revenue from the sale of goods is recognized in profit or loss when the significant risks and rewards of ownerships have been transferred to the customer. Revenue from advertising in television are recognized in profit or loss when the advertisements are shown. They are recognized as revenue when first published although the same advertisement can be shown more than once because of reruns of television shows. The same rule is applied to sponsorship of particular television shows. No revenue is recognized if there are significant uncertainties regarding collection of the due revenue or on the possibility of goods being returned.

3.9 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3.9.1 The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

3.9.2 The Group as lessee

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.10 Foreign currencies

The individual financial statements of each Company's entity are presented in the currency of the primary economic environment in which the entity operates in. For the purpose of the Consolidated Financial Statements, the results and financial position of each entity are expressed in Icelandic krona which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities within the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of entities with a functional currency other than Icelandic krona are expressed in Icelandic krona using exchange rates prevailing at the balance sheet date. Income and expense items and cash flows are translated at the average exchange rates for the period and exchange differences arising, if any, are recognised directly in equity. Such translation differences are recognised in the income statement in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3.11 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is deferred in equity and released to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.12 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.13 Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instrument at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period.

3.14 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

3.14.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using Icelandic and foreign tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

3.14.2 Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted to reflect changes in probability that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3.14.3 Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in the income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

3.15 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

The Company recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefit embodied within the item will flow to the Company and the cost of the item can be measured reliably. All other cost is recognized in profit or loss as an expense as incurred.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives is as follows:

Telecommunication equipment	4 – 18 years
Buildings	15 - 33 years
Machinery and equipment	3 – 10 years
Vehicles	5 – 10 years

The residual value is reassessed annually.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in the income statement.

3.16 Intangible assets

3.16.1 Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3.16.2 Internally-generated intangible assets – research and development expenditure

Expenditure on research activities and development is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

• the technical feasibility of completing the intangible asset so that it will be available for use or sale;
• the intention to complete the intangible asset and use or sell it;
• the ability to use or sell the intangible asset;
• how the intangible asset will generate probable future economic benefits;
• the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
• the ability to measure reliably the expenditure attributable to the intangible asset during its devlopment.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

3.16.3 Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

3.17 Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.18 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Notes to the Consolidated Financial Statements

3.19 Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3.19.1 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

3.19.2 Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

• it has been acquired principally for the purpose of selling in the near future; or

• it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

• it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

• such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

• the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

• it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

3.19.3 Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

3.19.4 AFS financial assets

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

3.19.5 Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3.19.6 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

• significant financial difficulty of the issuer or counterparty; or

• default or delinquency in interest or principal payments; or

• it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

3.19.7 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3.20 Financial liabilities and equity instruments issued by the Group

3.20.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

3.20.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

3.20.3 Compound instruments

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

3.20.4 Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

3.20.5 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL

A financial liability is classified as held for trading if:

• it has been incurred principally for the purpose of repurchasing in the near future; or

• it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

• it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

• such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

• the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

• it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

3.20.6 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

3.20.7 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3.21 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.
Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

3.21.1 Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

3.21.2 Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3.21.3 Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

3.21.4 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

3.21.5 Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the ’other gains and losses’ line of the income statement.

Gains and losses deferred in the foreign currency translation reserve are recognised in profit or loss on disposal of the foreign operation.

3.22 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors's best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5. Segment Reporting

The segment information is provided on the basis of geographich areas, being the basis on which the Group manages its interest. Revenue is attributed to a country or region based on the location of the Group company reporting the revenue. Inter-segment sales are charged at arms length prices.

Geographical segments
2008

	Domestic business	International business	Total
Net sales	26.709.053	12.303.793	39.012.846
Cost of sales	(13.527.520)	(9.750.556)	(23.278.076)
Gross profit	13.181.533	2.553.237	15.734.770
Other operating income	580.375	33.448	613.823
Operating expense	(9.168.869)	(2.170.171)	(11.339.040)
Impairment losses	(1.122.602)	(1.274.766)	(2.397.368)
Operating profit	3.470.437	(858.252)	2.612.185
Finance costs	(8.947.963)	(551.716)	(9.499.679)
Share of loss in associates	(119.023)	0	(119.023)
Income tax	625.266	(42.268)	582.998
Profit for the year from continuing operations	(4.971.283)	(1.452.236)	(6.423.519)
Depreciation and Amortization included above	3.478.199	478.213	3.956.412
Assets	110.076.607	18.580.482	128.657.089
Liabilities	(85.273.339)	(6.836.533)	(92.109.872)

Skipti hf. - Consolidated Financial Statements 2008 20 All amounts are in thousands of ISK

Geographical segments
2007

	Domestic business	International business	Total
Net sales	26.030.704	6.688.375	32.719.079
Cost of sales	(13.844.371)	(5.128.514)	(18.972.885)
Gross profit	12.186.333	1.559.861	13.746.194
Other operating income	548.757	89.933	638.690
Operating expense	(7.807.573)	(1.286.244)	(9.093.817)
Operating profit	4.927.517	363.550	5.291.067
Finance costs	(3.012.888)	(261.182)	(3.274.070)
Share of loss in associates	(26.003)	0	(26.003)
Income tax	(260.257)	(44.676)	(304.933)
Profit for the year from continuing operations	1.628.369	57.692	1.686.061
Depreciation and Amortization included above	3.991.958	210.067	4.202.025
Assets	87.359.271	10.281.880	97.641.151
Liabilities	(56.422.341)	(8.462.256)	(64.884.597)

Business segments

Current business segements for the Company are Telecommunications, Information Technology and Media and entertainment.
Net sales are specified as follows according to business segements:

	2008	2007
Telecommunications	27.978.374	24.337.295
Information Technology	9.273.118	6.390.764
Media and entertainment	2.375.177	2.629.710
	39.626.669	33.357.769

6. Financial risk

The Group´s activities mean that its operations, assets, debt and equity are exposed to variety of financial risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's treasury function provides a centralized service to the Group for funding, foreign exchange, interest rate managment and counterparty risk management. Treasury operations are conducted within a framework of policies and quidelines authorised and reviewed annually by the Company's Board, most recently on 2. October 2008. A corporate finance committee led by the CEO of the Group meets monthly to review the its borrowing portfolio and currency risk.

Interest rate risk:

The Group´s borrowing consists of listed bonds issued in ISK at a fixed rate, foreign currency loans with floating interrest rates and other borrowings in ISK with floating interest rate.

Sensitivity analysis

The Group's sensitivity to fluctuations in interest rates has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 1% increase/decrease in interest rates with all other variables held constant will result in ISK 634 million decrease/increase in profit and equity.

Skipti hf. - Consolidated Financial Statements 2008 21 All amounts are in thousands of ISK

Foreign exchange risk:

The Group is primarily exposed to EUR, USD, CHF, GBP, JPY, SEK and DKK. The largest effect is through the Group's borrowings which to a large extent is in foreign currencies, although closely correlated to the Icelandic currency basket. To a lesser extent, foreign exchange rates affect revenues and operational costs related to international telecommunication and IT services, as well as operations in foreign subsidiaries. A part of the Group's capital expenditure is in foreign currencies. The Group hedges a part of its foreign exchange exposure. The level of hedging varies upon the economical outlook and interest rate difference at any given time. On 31 December 2008 more than 31% of borrowing in foreign currencies, for domestic purposes, is hedged with liquid assets denominated in EUR. Foreign currency risk of borrowing for the purpose of funding foreign acquisitions is offset by the asset acquired. The Group's position is analysed monthly by a corporate finance committee steered by the CEO of Group. Due to market failure Skipti is temporarily not able to enter into any hedging agreements.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Group has designated some of the foreign borrowings as a hedge against net investment in a foreign operations as a hedge in accordance with IAS 39.

Sensitivity analysis

The Group is sensitive to fluctuations in foreign currencies. The management has assessed the effect of fluctuations for outstanding foreign currency denominated monetary items and adjusted their translation at the period end for a 1% change in foreign currency rates. The analysis assumes that all other variables than foreign currency rates are held constant. The effect on profit and equity is a ISK 281 million decrease/increase for 1% increase/decrease in currency rates.

For the whole year 2008 Skipti hedged it's foreign exchange risk with derivative agreements with Glitnir bank and Kaupthing bank (the Banks). In early October the Icelandic Financial Supervisory Authority (the FSA) used power granted by the Icelandic Parliament to take control of the banks. Later in that month the FSA decided to transfer a substantial part of the Banks assets and operations into new banks, New Glitnir bank and New Kaupthing bank (the New Banks). However, as a general rule the New Banks did not take over derivative agreements, including Skipti's hedging agreements. Skipti has formally demanded that Skipti's assets under the agreements will be set off against Skipti's debt to the Banks. The value of the derivatives agreements is calculated in case of Glitnir based on the exchange rate presented by the Icelandic Central bank on due date and in case of Kaupthing bank based on it's own calculations on due date.

Credit risk:

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group´s exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date in addition to certain financial guarantees. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. In respect of trade receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty.

The Group's maximum exposure to credit risk without taking into account value of any collateral obtained is represented in the table below:

	Maximum credit risk	
	31.12.2008	31.12.2007
Accounts receivables	6.478.203	5.313.812
Liquid funds	20.492.583	5.269.137
Other financial assets	1.342.851	1.158.631
Derivative financial instruments	10.450.570	0
Financial guarantees	1.597.718	939.930
	40.361.925	12.681.510

Skipti hf. - Consolidated Financial Statements 2008 22 All amounts are in thousands of ISK

Notes to the Consolidated Financial Statements

Liquidity risk:

The Group has considerable investments in long-term assets. The borrowing is therefore structured with a high proportion of long-term debt with moderate repayments of facilities and un-drawn credit lines is showed in the table below. The following table shows the Group´s remaining expected maturity for its financial liabilities and financial assets. The table has been drawn up based on the undiscounted cash flow of financial liabilities based on the earliest date on wich the Group can be required to pay. The weighted average effective fixed interest rate is 6,00% and the weighted average effective floating interest rate is 5,65%. The Group has facilities and un-drawn credit lines amounting to ISK 7,9 billion.

At 31 December 2008	Less than 1 year	1-2 years	2-5 years	After 5 years	Total
Borrowings	4.681.890	7.212.467	70.108.025	43.695	82.046.077
Trade and other payables	9.817.474				9.817.474
	14.499.364	7.212.467	70.108.025	43.695	91.863.551

7. Personnel

	2008	2007
Average number of employees, adjusted for full-time employment	1.772	1.748
Number of employees at year-end	1.768	1.896

Salaries and related expenses are specified as follows:

Salaries	10.883.275	10.882.755
Related expenses	1.961.159	2.013.199
	12.844.434	12.895.954

Salaries paid to the Company's Board of Directors, CEO and other senior Directors of the Company amounted to ISK 470 million.

8. Financial income and expenses

	2008	2007
Interest earned	833.165	410.181
Income from investments	598.099	687.765
Interest and indexation expenses	(7.735.315)	(4.443.187)
Exchange gains (loss)	(3.195.628)	71.171
Finance cost total	(9.499.679)	(3.274.070)

Skipti hf. - Consolidated Financial Statements 2008 23 All amounts are in thousands of ISK

Notes to the Consolidated Financial Statements

9. Income taxes

In May 2008 the Icelandic Parliament approved a decrease in the income tax rate from 18% to 15% effective as of 1 January 2008. Due to this the deferred tax liability at year-end 2007 decreased by ISK 163 million. The decrease is recognised as a part of income tax in the Income Statement.

Income tax recognised in profit or loss	2008	2007
Tax expense comprises:		
Current tax expense	(483.567)	360.040
Deferred tax expense	(99.431)	251.278
	(582.998)	611.318
Attributible to:		
Continuing operations	(582.998)	304.933
Discontinued operations	0	306.385
	(582.998)	611.318

The total charge for the year can be reconciled to the accounting profit as follows:

(Loss) Profit from operations		(7.006.517)		3.693.134
Income tax using the corporation tax rate	15,0%	(1.050.978)	18,0%	664.764
Change in tax rate from 18% to 15%	1,4%	(96.592)	0,0%	0
Dividend	0,0%	(805)	-0,2%	(7.076)
Effects of different tax rates of subsidiaries	1,9%	(132.316)	0,7%	25.662
Non-deductible expenses	-5,6%	392.571	0,0%	0
Other changes	-4,4%	305.122	-2,0%	(72.032)
Effective tax rate	8,3%	(582.998)	16,5%	611.318

10. Earnings per share

	2008	2007
Basic and diluted earnings per share		
From continuing operations	(0,75)	0,19
From discontinuing operations	0,00	0,24
Total basic and diluted earnings per share	(0,75)	0,43

10.1 Basic earnings per share

The earnings and weighted average number of ordinary shares, excluding ordinary shares held as treasury shares, used in the calculation of basic earnings per share are as follows:

	2008	2007
Net (loss) profit attributable to equity holders of the parent	(6.474.019)	1.359.740
Profit from discontinued operations attributable to equity holders of the	0	1.686.061
Earnings used in the calculation of total basic earnings per share	(6.474.019)	3.045.801
Weighted average number of outstanding shares in issue (thousands)	8.679.764	7.212.022

At year end there were neither a stock options plan or convertible loan in place. Therefore there is no diluted earnings per share.

Skipti hf. - Consolidated Financial Statements 2008 24 All amounts are in thousands of ISK

11. Property, plant and equipment

	Telecommunications equipment	Buildings and land	Machinery and equipment	Total
Cost				
Total value 1.1.2008	41.016.913	2.011.740	2.101.257	45.129.910
Additions during the year	3.765.611	99.533	286.329	4.151.473
Reclassified			(3.093)	(3.093)
Sales and disposals during the year	(9.253)		(124.639)	(133.892)
Net foreign currency exchange differences	511.748		12.466	524.214
	45.285.019	2.111.273	2.272.320	49.668.612
Depreciation				
Total value 1.1.2008	(28.097.954)	(352.074)	(1.123.746)	(29.573.774)
Reclassified			287	287
Depreciation during the year	(3.004.150)	(75.727)	(289.955)	(3.369.832)
Sales and disposals during the year	3.111		55.464	58.575
Net foreign currency exchange differences	(321.896)		(9.564)	(331.460)
	(31.420.889)	(427.801)	(1.367.514)	(33.216.204)
Net book value 31.12.2008	13.864.130	1.683.472	904.806	16.452.408

The official real estate valuation on the Company's buildings and land amounted to ISK 1.482 million at year-end 2008 and the insurance value amounted to ISK 2,967 million at the same time. The insurance value of machinery and equipment amounted to ISK 20,429 million.

12. Depreciation and Amortization is specified as follows in the income statement:

	2008	2007
Cost of sales	2.829.449	3.043.805
Operating expenses	1.126.963	1.158.220
Total	3.956.412	4.202.025

13. Intangible assets

	Goodwill	Software	Other Intangibles	Total
Cost				
Total value 1.1.2008	66.587.763	3.979.575	69.443	70.636.781
Additions during the year	10.736	481.723	214.627	707.086
Reclassified	(1.368.164)	3.093	1.368.164	3.093
Net foreign currency exchange differences	6.310.207	62.047	825.711	7.197.965
	71.540.542	4.526.438	2.477.945	78.544.925
Amortisation				
Total value 1.1.2008	(464.079)	(3.337.787)	(69.443)	(3.871.309)
Reclassified	464.079	(287)	(464.079)	(287)
Amortisation during the year		(309.800)	(276.780)	(586.580)
Impairment loss	(2.397.368)			(2.397.368)
Net foreign currency exchange differences	(128.640)	(9.931)	(290.404)	(428.975)
	(2.526.008)	(3.657.805)	(1.100.706)	(7.284.519)
Net book value 31.12.2008	69.014.534	868.633	1.377.239	71.260.406

Skipti hf. - Consolidated Financial Statements 2008 25 All amounts are in thousands of ISK

13.1 Annual test for impairment

For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units which represent the lowest level within the Group, at which the goodwill is monitored for internal management purpose.

In performing the annual impairment test of goodwill, an assessment is made as to whether the individual units of the company (cash-generating units) to which goodwill relates will be able to generate sufficient positive net cash flows in the future to support the value of goodwill, trademarks with an indefinite useful life and other net assets of the entity.

The estimates of future net free cash flows are based on budgets and business plans for the next five years and the terminal period. Key parameters are sales growth, operating margin, future capital expenditure and growth expectations beyond the next five years. Discount rates which reflect the risk-free interest rate with the addition of specific risks related to equity and liabilities in each particular segment are used to calculate recoverable amounts.

The impairment losses recognised in the Consolidated Income Statement, included within operating expenses, in respect of goodwill are as follows:

Domestic Business	1.122.602
International Business	1.274.766
Total impairment	2.397.368

The key assumptions used for value in use calculations are as follows:

	Domestic business	International business
Long term growth rate	2,5% - 4%	0% - 5%
Revenue growth:		
Weighted average 2009 - 2013	2%	10%
WACC	11% - 21%	11% - 16%

At 31 December the carrying amount of goodwill with an indefinite useful life for the Company’s cash-generating units, summarised at segment level, was as follows:

	2008
Domestic Business	57.509.594
International Business	11.504.940
Total goodwill	69.014.534

Skipti hf. - Consolidated Financial Statements 2008 26 All amounts are in thousands of ISK

14. Subsidiaries

Aerofone Ltd.	100,0%
Gaukshöfði ehf.	100,0%
Míla ehf.	100,0%
On-waves S.ä.r.l.	100,0%
On-waves ehf.	84,0%
On-waves Holding Inc	100,0%
On-waves America LLC	93,0%
Landssíminn ehf.	100,0%
Radíómiðun ehf.	75,0%
Sensa ehf.	100,0%
Sensa DK Aps	100,0%
Siminn DK Aps	100,0%
Siminn Denmark Aps	100,0%
Siminn UK Ltd.	100,0%
Sirius IT Holding A/S	89,6%
Sirius IT Danmark Aps	99,0%
Sirius IT Norway A/S	96,6%
Svenska Sirius IT AB	98,3%
Síminn hf.	100,0%
Skjá miðlar ehf.	100,0%
Skjárinn ehf.	100,0%
Staki ehf	100,0%
Stefja hf.	62,7%
Tæknivörur ehf.	53,5%
Já Upplýsingaveitur ehf.	100,0%

15. Associates

The Group's share in the operating result of its associated companies was a loss of ISK 119 million. The share in net equity amounted to ISK 52 million at the end of the year.

	Ownership %	Nominal value	Book value
Farsímagreiðslur ehf.	40,5%	28.350	11.530
Hið íslenska númeraflutningsfélag ehf.	33,3%	4.000	3.586
Nordisk Mobil Ísland ehf.	50,0%	250	250
Þræðir ehf.	46,7%	234	0
Trackwell ADS	50,0%	-	12.360
Bolignet A/S	33,3%	-	24.691
Total			52.417

16. Investment

The Company acquired stakes in telecommunications companies in the Czech Republic and it was paid with new shares in the Company. During the year the Company sold the telecommunication companies in the Czech Republic and Carrera and received ISK 18.454 million in cash.

At the end of the year the Company owned shares in two foreign and nine domestic companies where the ownership was less than 20%.

17. Inventories

	2008	2007
Finished goods	835.187	730.663
Work in progress	117.056	134.321
TV programs for screening	325.124	268.597
Inventory total	1.277.367	1.133.581

Skipti hf. - Consolidated Financial Statements 2008 27 All amounts are in thousands of ISK

18. Other current assets

	2008	2007
Derivative financial instruments	10.450.570	0
Prepayments and accrued income	351.908	257.933
Other current assets	620.253	621.101
Other current assets total	11.422.731	879.034

For the whole year 2008 Skipti hedged it's foreign exchange risk with derivative agreements with Glitnir bank and Kaupthing bank (the Banks). In early October the Icelandic Financial Supervisory Authority (the FSA) used power granted by the Icelandic Parliament to take control of the banks. Later in that month the FSA decided to transfer a substantial part of the Banks assets and operations into new banks, New Glitnir bank and New Kaupthing bank (the New Banks). However, as a general rule the New Banks did not take over derivative agreements, including Skipti's hedging agreements. Skipti has formally demanded that Skipti's assets under the agreements will be set off against Skipti's debt to the Banks. The value of the derivatives agreements is calculated in case of Glitnir based on the exchange rate presented by the Icelandic Central bank on due date and in case of Kaupthing bank based on it's own calculations on due date.

Glitnir bank have declined Skipti's claim to set off the assets under the agreement of total ISK 9.510 million against Skipti's debt at the Bank. The final treatment of Skipti's derivative agreements at the Banks is therefore subject to uncertainty.

19. Share capital

Issued shares at year end totaled of 10.145 million shares with a par value of ISK 1 per share. Own shares amounted to ISK 1.420 million.

20. Non-current liabilities:

Borrowings are specified as follows by currency denominations:

Loans in USD	9.382.471
Loans in EUR	13.985.549
Loans in GBP	5.625.615
Loans in JPY	7.665.572
Loans in CHF	14.136.624
Loans in DKK	8.480.585
Loans in ISK	21.661.090
Current maturities of borrowings	(3.573.319)
	77.364.187

21. Annual maturities of borrowings are specified as follows:

In the year 2009	3.573.319
In the year 2010	3.585.243
In the year 2011	3.627.224
In the year 2012	6.233.151
In the year 2013	42.433.019
Subsequent payments	21.485.551
Total borrowings, including current maturities	80.937.507

Skipti hf. - Consolidated Financial Statements 2008 28 All amounts are in thousands of ISK

Notes to the Consolidated Financial Statements

22. Deferred tax for the Group is specified as follows:

Analysis of movements in the net deferred tax balances during the year is as follows:

Deferred tax at the beginning of the year	(304.731)
Exchange rate difference and changes within the group	(254.047)
Income tax posted to the income statement	582.998
Credited directly to equity	243.340
Deferred tax liability at the end of the year	267.560

The deferred tax asset is allocated as follows:

Property and equipment	(868.571)
Current assets	5.343
Hedge reserve	243.340
Other items	(149.494)
Tax loss carry-forwards	1.036.942
Deferred tax asset at the end of the year	267.560

Analysed in the balance sheet, after offset of balances within countries, as:

Deferred tax asset	513.881
Deferred tax liability	(246.321)
	267.560

Mortgages and guarantees

23. Assets of the Group are mortgaged to guarantee loans, which amount to ISK 52,580 million at the end of the year 2008.

24. The Group has guaranteed loans for Farice hf. that are nominated in foreign currencies and amounted to ISK 1,598 million at the end of the year. The Group's commitments on the lease of a submarine telecommunications cable amount to ISK 497 million annually until 2012. The Group's commitments on account of housing leases amount to ISK 490 million annually. The leases expire in the years 2009-2018

25. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

The Company acquired stakes in two telecommunications companies in the Czech Republic from Exista hf. New share capital in Skipti was issued in connection with the acquisition. At year end there was no balances between Exista hf and Skipti hf.

Events after the balance sheet date:

26. There have been no material post balance sheet events that have not already been disclosed and would require adjustments to the statements.

27. The consolidated financial statements were approved by the board of directors and authorised for issue on the 21 April 2009.

Skipti hf. - Consolidated Financial Statements 2008 29 All amounts are in thousands of ISK