Consolidated Financial Statements

2009

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 2009 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.

The total sales for Skipti hf. for the year amounted to ISK 39.682 million, compared to ISK 39.013 in the preceding year. Net loss amounted to ISK 10.205 million compared to net loss of ISK 6.424 in 2008. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to ISK 8.678 million compared to ISK 8.966 million in the preceding year.

The total assets of the Company amounted to ISK 120.697 million at year end, the equity amounted to ISK 25.525 million at the year end and the Company's equity ratio was 21%. As regards to changes in the equity of the Company, the Board refers to the Consolidated Financial Statements.

At year end there were two shareholders in Skipti hf, Exista hf with 63,1% and Exista B.V. with 36,9%.

Skipti is engaged in discussions with its creditors which have requested that repayment of the company's debt is accelerated from the terms stipulated in the loan agreement. Skipti's liquidity position is strong, with the company holding a net cash of over ISK 20 billion at the turn of the year. However, the company's debts have increased with the fall of the Icelandic króna, as a part of the company's borrowings are in foreign currencies. Skipti had entered into currency swap agreements with the Icelandic banks to hedge against the fall of the króna, however the banks have failed to fulfil the contracts. When the debt, calculated in Icelandic króna, increased it was the assessment of the creditors that the terms of the loan agreement had been disrupted, and they requested acceleration in repayment of the loan facilities using available cash at Skipti. The Company is engaged in constructive discussion with its creditors on this issue and the Directors expect to reach a conclusion shortly.

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 2009 with their signatures.

Reykjavík 22 March, 2010

Board of Directors

Rannveig Rist
Chairman of the Board

Lýður Guðmundsson — Sigurgeir Brynjar Kristgeirsson

Erlendur Hjaltason — Hildur Árnadóttir

Brynjólfur Bjarnason
CEO

Independent Auditor's Report

To the Board of Directors and shareholders of Skipti hf.

We have audited the accompanying consolidated financial statements of Skipti hf., which comprise the balance sheet as at December 31, 2009, and the income statement, cash flow statement and statement of changes in equity 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the financial position of Skipti hf. as of December 31, 2009, 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 19 to the consolidated financial statements, which states that the Company is in a disagreement with Glitnir bank regarding derivative agreements.
We also without qualifying our opinion draw attention to note 21 which states that the Company is in discussions with its creditors as it was the assessment of the creditors that the terms of the loan agreement had been disrupted.

Reykjavík, 22 March 2010.

Deloitte hf.

Hilmar A. Alfreðsson
State Authorized Public Accountant

Consolidated Income Statement
for the year 2009

	Notes	2009	2008
Net sales	6	39.682.016	39.012.846
Cost of sales		(24.512.913)	(23.278.076)
Gross profit		15.169.103	15.734.770
Other operating income		645.912	613.823
Operating expenses		(11.463.484)	(11.339.040)
Impairment losses	13	(7.251.520)	(2.397.368)
Operating (loss) / profit		(2.899.989)	2.612.185
Finance costs	9	(7.478.219)	(9.499.679)
Share of loss in associates		(26.131)	(119.023)
Loss before tax		(10.404.339)	(7.006.517)
Income tax	10	199.684	582.998
Loss for the year		(10.204.655)	(6.423.519)
Attributable to:			
Owners of the company		(10.323.734)	(6.474.019)
Non-controlling interest		119.079	50.500
		(10.204.655)	(6.423.519)
Loss per share:			
Loss per share	11	(1,18)	(0,74)

Skipti hf. - Consolidated Financial Statements 2009 5 All amounts are in thousands of ISK

Consolidated Statement of Comprehensive Income for the year 2009

	2009	2008
Loss for the year	(10.204.655)	(6.423.519)
Other Comprehensive Income		
Translation difference of foreign operations	(700.713)	2.234.627
Cash flow hedge	391.180	(1.340.000)
Tax on items taken directly to equity	(16.633)	243.341
	(326.166)	1.137.968
Total comprehensive income	(10.530.821)	(5.285.551)
Attributable to:		
Owners of the company	(10.570.866)	(5.387.782)
Non-controlling interest	40.045	102.231
	(10.530.821)	(5.285.551)

Skipti hf. - Consolidated Financial Statements 2009 6 All amounts are in thousands of ISK

Consolidated Statement of Financial position
at 31 December 2009

	Notes	31.12.2009	31.12.2008
Assets			
Non-current assets			
Property,plant and equipment	12	15.644.037	16.452.408
Intangible assets	13	64.402.585	71.260.406
Investments in associated companies	15	258.090	52.417
Investments in other companies	16	34.064	336.403
Other investment		0	370.690
Deferred tax assets	22	1.017.207	513.881
Non-current assets		81.355.983	88.986.205
Current assets			
Inventories	17	1.672.057	1.277.367
Accounts receivables	18	5.886.574	6.478.203
Other assets	19	11.459.279	11.422.731
Cash and cash equivalents		20.323.575	20.492.583
Current assets		39.341.485	39.670.884
Total Assets		120.697.468	128.657.089
Equity and Liabilities			
Equity			
Share capital	20	8.724.523	8.724.523
Reserves		8.812.542	9.022.504
Translation reserves		473.041	720.174
Retained earnings		7.232.197	17.561.846
Equity attributable to owners of the Company		25.242.303	36.029.047
Non-controlling interest		282.543	518.170
Total Equity		25.524.846	36.547.217
Non-current liabilities			
Borrowings	21	80.119.493	77.364.187
Deferred tax liabilities	22	403.239	246.321
Non-current liabilities		80.522.732	77.610.508
Current liabilities			
Bank loans		1.163.640	1.108.571
Accounts payables		5.519.268	5.432.384
Current maturities of borrowings	21	3.850.224	3.573.319
Other current liabilities		4.116.758	4.385.090
Current liabilities		14.649.890	14.499.364
Total liabilities		95.172.622	92.109.872
Total equity and liabilities		120.697.468	128.657.089

Skipti hf. - Consolidated Financial Statements 2009 7 All amounts are in thousands of ISK

Consolidated Statement of Changes in Equity
for the year 2009

	Share capital	Reserves	Translation reserves	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total equity
Total equity 1.1.2008	7.365.146	1.383.522	(366.063)	24.005.049	32.387.654	368.900	32.756.554
Total comprehensive income for the year			1.086.237	(6.474.019)	(5.387.782)	102.231	(5.285.551)
Change in non-controlling interest				30.816	30.816	52.167	82.983
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
Total comprehensive income for the year			(247.133)	(10.323.734)	(10.570.867)	40.045	(10.530.822)
Change in non-controlling interest				(5.915)	(5.915)	(237.229)	(243.144)
Dividend paid					0	(38.443)	(38.443)
Buyback of ordinary shares		(209.962)			(209.962)		(209.962)
Total equity 31.12.2009	8.724.523	8.812.542	473.041	7.232.197	25.242.303	282.543	25.524.846

Skipti hf. - Consolidated Financial Statements 2009 8 All amounts are in thousands of ISK

Consolidated Statement of Cash Flow
for the year 2009

	Notes	2009	2008
Cash flow from operating activities			
Operating profit for the year		(2.899.989)	2.612.185
Operational items not affecting cash flow:			
Depreciation and amortisation	12,13	11.577.849	6.353.780
Gain on sale of fixed assets		6.034	(11.258)
Changes in current assets and liabilities		410.011	1.147.188
Cash generated by operation		9.093.905	10.101.895
Interest income received during the year		862.371	820.272
Payments of taxes during the year		(317.045)	(138.571)
Interest expenses paid during the year		(2.772.613)	(2.429.369)
Net cash from operating activities		6.866.618	8.354.227
Investing activities			
Investment in property, plant and equipment	12	(2.692.567)	(4.151.473)
Investment in intangible assets	13	(468.362)	(707.086)
Proceeds from sale of property, plant and equipment		46.996	66.466
Changes in other investments		9.597	(128.088)
Proceeds from sale of investments		0	18.453.645
Net investment in subsidiaries		(649.572)	0
Changes in investment in other companies		(152.604)	(31.976)
Investing activities		(3.906.512)	13.501.488
Financing activities			
New borrowings		9.444	89.480
Payments of non-current liabilities		(3.812.321)	(7.157.184)
Bank loans, increase (decrease)		65.615	(15.439)
Buyback of ordinary shares		(209.963)	0
Changes in own shares		0	(13.213)
Financing activities		(3.947.225)	(7.096.356)
Increase (decrease) in cash and cash equivalents		(987.119)	14.759.359
Effects of exchange rate changes on the balance of cash		818.111	464.087
Cash and cash equivalents at the beginning of the year		20.492.583	5.269.137
Cash and cash equivalents at the end of the year		20.323.575	20.492.583

Skipti hf. - Consolidated Financial Statements 2009 9 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 2009 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 and prior periods

The financial statements are presented in accordance with the new and revised standards (IFRS / IAS) and new interpretations (IFRIC), applicable in the year 2009. These standards and interpretations are:

IFRS 2 (revised) - *Share-based Payment*
IFRS 7 (revised) - *Financial Instruments: Disclosures*
IFRS 8 - *Operating Segments*
IAS 1 (revised) - *Presentation of Financial Statements*
IAS 23 (revised) - *Borrowing Costs*
IAS 32 (revised) - *Financial Instruments Presentation*
IFRIC 13 - *Customer Loyalty Programs*
IFRIC 16 - *Hedges of a Net Investment in a Foreign Operation*

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

IAS 1 has 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.

IFRS 8 is a disclosure Standard that has resulted in a redesignation of the Company's reportable segment. (see note 5)

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 2010
IFRS 3 (revised 2008) - *Business Combinations*	1 July 2009
IAS 27 (revised 2008) - *Consolidated and Separate Financial Statements*;	1 July 2009
IAS 28 (revised 2008) - *Investments in Associates*;	1 July 2009
IAS 32 (revised 2009) - *Financial Instruments: Presentation*	1 February 2009
IAS 39 (revised 2008) - *Financial Instruments: Recognition and Measurement*	1 July 2009

Minor changes to various standards as a result of the IASB's annual improvement process (2009). Most changes take effect for periods beginning 1 January 2010 or later.

IAS 17 - *Leases*	1 January 2010
IFRS 2 - S*hare-based Payments*	1 January 2010

Skipti hf. - Consolidated Financial Statements 2009 10 All amounts are in thousands of ISK

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 the EU.

3.2 Basis of preparation

The Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The principal accounting policies are set out below.

3.3 Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the parent and entities controlled by the parent (its subsidiaries). Control is achieved where the parent 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 and 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.

3.4 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The consideration for each acquisition 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. Acquisition-related costs are recognised in profit or loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair values at the acquisition date, except for 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 are measured in accordance with that standard.

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 measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquistion date - and is subject to a maximum of one year.

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. Under the equity method, investments in associates are carried in the consolidated statement of financial position 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 are recognised only to the extent that 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.

When 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 in a business combination is recognised as an assets at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. 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 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.

3.8 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.

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 statement of financial position 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 expenses are recognised immediately in profit or loss.

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.

3.9 Foreign currencies

The individual financial statements of each Company entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and financial position of Company 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, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies).

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 end of the reporting period. 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 in other comprehensive income and accumulated in equity (attributed to non-controlling interest as appropriate).

On the disposal of a foreign operation all of the accumulated exchange differences in respect of that operation attributable to the Company are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interest are derecognised, but they are not reclassified to profit or loss.

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.

3.10 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.

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

3.11 Government grants

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

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position 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 revenue 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 Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.12 Taxation

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

3.12.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated 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 end of the reporting period.

3.12.2 Deferred tax

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. 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 deferred tax 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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable 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 end of the reporting period. 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.

3.12.3 Current and deferred tax for the period
Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

3.13 Property, plant and equipment
Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated 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.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, ther term of the relevant lease.

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 profit or loss.

3.14 Intangible assets

3.14.1 Intangible assets acquired separately
Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised 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.

3.14.2 Internally-generated intangible assets – research and development expenditure
Expenditure on research activities 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 recognised in 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.

3.14.3 Intangible assets acquired in a business combination
Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at 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.

3.15 Impairment of tangible and intangible assets excluding goodwill

At end of each reporting period, 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.

3.16 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.

3.17 Financial assets

All financial assets 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.

3.17.1 Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition

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

3.17.2 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.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement 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.

3.17.3 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.

3.17.4 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 affected.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, 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.

3.17.5 Derecognition of financial assets

The Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3.18 Financial liabilities and equity instruments issued by the Company

3.18.1 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 arrangements entered into and the definitions of a financial liability and an equity instrument.

3.18.2 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.

3.18.3 Financial liabilities

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

3.18.4 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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the other gains and losses line item in the statement of comprehensive income.

3.18.5 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, to the net carrying amount on initial recognition.

3.18.6 Derecognition of financial liabilities

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

3.19 Derivative financial instruments

The Company 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. Further details of derivative financial instruments are disclosed in note 7.
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 the end of each reporting period. 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 Company 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 with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liabilities. 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.

3.19.1 Hedge accounting

The Company designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either fair value 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 Company 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.

3.19.2 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 Company 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.

3.19.3 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 other comprehensive income and accumulated 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.

3.20 Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that the Company will be required to settle that obligation, and a reliable estimate can be made af the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risk and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation , its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivables is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company'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.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flow expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

5. Geographical segments

The Company has adopted IFRS 8 *Operating Segments* with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess their perfomance. Following the adoption of IFRS 8, the identification of the Company's reportable segments has changed. The Company uses geographical markets as its primary segments.

2009	Domestic business	International business	Total
Net sales	25.156.704	14.525.312	39.682.016
Cost of sales	(12.571.276)	(11.941.637)	(24.512.913)
Gross profit	12.585.428	2.583.675	15.169.103
Other operating income	645.912	0	645.912
Operating expense	(8.826.624)	(2.636.860)	(11.463.484)
Impairment losses	(5.828.321)	(1.423.199)	(7.251.520)
Operating (loss)	(1.423.605)	(1.476.384)	(2.899.989)
Finance costs	(7.539.100)	60.881	(7.478.219)
Share of loss in associates	(5.024)	(21.107)	(26.131)
Income tax	452.351	(252.667)	199.684
Loss for the year	(8.515.378)	(1.689.277)	(10.204.655)
Capital additions	2.524.873	636.056	3.160.929
Depreciation and Amortization included above	3.480.498	845.831	4.326.329
Assets	104.112.425	16.585.043	120.697.468
Liabilities	(88.974.595)	(6.198.027)	(95.172.622)

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 / (loss)	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
Loss for the year	(4.971.283)	(1.452.236)	(6.423.519)
Capital additions	4.328.852	518.971	4.847.823
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 2009 18 All amounts are in thousands of ISK

6. Net sales

	2009	2008
Sales of services	38.054.969	36.891.570
Sales of goods	1.627.047	2.121.276
	39.682.016	39.012.846

No customer comprises more than 10% of net sale.

7. Capital and financial risk

Capital risk management:

The Company manages its capital to ensure that the entities in the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from the previous period.

The capital structure of the Company consist of debt, which includes the borrowings disclosed in note 21, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

Financial risk management:

The Company´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 Company's treasury function provides a centralized service to the Company 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 by the Company's Board. A corporate finance committee led by the CEO of the Company meets monthly to review the its borrowing portfolio and currency risk.

Interest rate risk:

The Company´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 Company'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 649 million (2008: ISK 634 million) decrease/increase in profit and equity.

Foreign exchange risk:

The Company is primarily exposed to EUR, USD, CHF, GBP, JPY and DKK. The largest effect is through the Company's borrowings as disclosed in note 21 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 Company's capital expenditure is in foreign currencies. The Company has historically hedged a part or all of its foreign exchange exposure. The level of hedging varied upon the economical outlook and interest rate difference at any given time. On 31 December 2009 more than 33% 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 Company'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 Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Company 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.

Skipti hf. - Consolidated Financial Statements 2009 19 All amounts are in thousands of ISK

Sensitivity analysis

The Company 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 329 million (2008: 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 2008 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 formally lodged claims against New Glitnir and New Kaupthing in 2009. The claims are based on the EUR/ISK rate from the Central Bank of Europe whereas in Skipti's financial accounts for 2009 the claims are based on exchange rates presented by the Icelandic Centreal Bank on the due dates in case of Glitnir and on Kaupthing's own calculations on due dates.

Credit risk:

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company´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 Company is not exposed to any significant credit risk exposure to any single counterparty.

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

	Maximum credit risk	
	31.12.2009	31.12.2008
Accounts receivables	5.886.574	6.478.203
Liquid funds	20.323.575	20.492.583
Other financial assets	1.008.709	1.342.851
Derivative financial instruments	10.450.570	10.450.570
Financial guarantees	1.690.872	1.597.718
	39.360.300	40.361.925

Liquidity risk:

The Company 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 Company´s remaining expected maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flow of financial liabilities based on the earliest date on wich the Company can be required to pay. The weighted average effective fixed interest rate is 6,00% (2008: 6,00%) and the weighted average effective floating interest rate is 3,96% (2008: 5,65%). The Company has facilities and un-drawn credit lines amounting to ISK 6,7 billion (2008: ISK 7,9 billion).

At 31 December 2009	Less than 1 year	1-2 years	2-5 years	After 5 years	Total
Borrowings	3.848.331	5.430.608	89.689.740	64.755	99.033.434
Trade and other payables	9.636.026				9.636.026
	13.484.357	5.430.608	89.689.740	64.755	108.669.460

At 31 December 2008	Less than 1 year	1-2 years	2-5 years	After 5 years	Total
Borrowings	3.594.957	3.649.151	70.118.981	24.131.007	101.494.096
Trade and other payables	9.817.474				9.817.474
	13.412.431	3.649.151	70.118.981	24.131.007	111.311.570

Skipti hf. - Consolidated Financial Statements 2009 20 All amounts are in thousands of ISK

Notes to the Consolidated Financial Statements

8. Personnel

	2009	2008
Average number of employees, adjusted for full-time employment	1.577	1.772

Salaries and related expenses are specified as follows:

	2009	2008
Salaries	11.273.388	10.883.275
Related expenses	2.300.713	1.961.159
	13.574.101	12.844.434

Salaries paid to the Company's Board of Directors, CEO and other senior Directors of the Company amounted to ISK 434 million.

9. Financial income and expenses

	2009	2008
Interest earned	844.899	833.165
Income from investments	(367.699)	598.099
Interest and indexation expenses	(5.846.906)	(7.735.315)
Exchange gains (loss)	(2.108.513)	(3.195.628)
Finance cost total	(7.478.219)	(9.499.679)

10. Income taxes

In December 2009 the Icelandic Parliament approved an increase in the income tax rate from 15% to 18% effective as of 1 January 2010.

Income tax recognised in profit or loss	2009	2008
Tax expense comprises:		
Current tax expense	189.390	483.567
Deferred tax expense	10.294	99.431
	199.684	582.998

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

Loss from operations			(10.404.339)	(7.006.517)
Income tax using the corporation tax rate	-15,0%	1.560.651	-15,0%	1.050.978
Change in tax rate from 18% to 15%	-0,4%	42.528	-1,4%	96.592
Impairment losses with no tax effect	10,5%	(1.087.728)	5,1%	(359.605)
Effects of different tax rates of subsidiaries	0,4%	(38.060)	-1,9%	132.316
Non-deductible expenses	0,1%	(11.250)	0,5%	(32.966)
Other changes	2,6%	(266.457)	4,3%	(304.317)
Effective tax rate	-1,8%	199.684	-8,3%	582.998

11. 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:

	2009	2008
Net (loss) attributable to equity holders of the parent	(10.323.734)	(6.474.019)
Weighted average number of outstanding shares in issue (thousands)	8.724.523	8.679.764
Total basic and diluted earnings per share	(1,18)	(0,75)

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 2009 21 All amounts are in thousands of ISK

12. Property, plant and equipment

2008	Telecommuni- cations equipment	Buildings and land	Machinery and equipment	Total
Cost				
Balance at 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
Disposal of a subsidiary			(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
Balance at 31.12.2008	45.285.019	2.111.273	2.272.320	49.668.612
Accumulated depreciation and impairment				
Balance at 1.1.2008	(28.097.954)	(352.074)	(1.123.746)	(29.573.774)
Reclassified			287	287
Depreciation expense	(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)
Balance at 31.12.2008	(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
2009				
Cost				
Balance at 1.1.2009	45.285.019	2.111.273	2.272.320	49.668.612
Additions during the year	2.436.680	104.661	151.226	2.692.567
Disposal of a subsidiary	(26.731)		(57.037)	(83.768)
Sales and disposals during the year	(37.453)		(220.464)	(257.917)
Net foreign currency exchange differences	124.711		9.843	134.554
Balance at 31.12.2009	47.782.226	2.215.934	2.155.888	52.154.048
Accumulated depreciation and impairment				
Balance at 1.1.2009	(31.420.889)	(427.801)	(1.367.514)	(33.216.204)
Depreciation expense	(3.073.230)	(83.047)	(295.250)	(3.451.527)
Disposal of a subsidiary	9.853		47.102	56.955
Sales and disposals during the year	15.570		189.374	204.944
Net foreign currency exchange differences	(96.256)		(7.923)	(104.179)
Balance at 31.12.2009	(34.564.952)	(510.848)	(1.434.211)	(36.510.011)
Net book value 31.12.2009	13.217.274	1.705.086	721.677	15.644.037

The official real estate valuation on the Company's buildings and land amounted to ISK 1.636 million at year-end 2009 and the insurance value amounted to ISK 3.047 million at the same time. The insurance value of machinery and equipment amounted to ISK 21.522 million. All the property, plant and equipment has been pledged as security against borrowings.

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

	2009	2008
Cost of sales	2.879.919	2.829.449
Operating expenses	1.446.410	1.126.963
Total	4.326.329	3.956.412

The following useful lives are used in the calculation of depreciation.

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

Skipti hf. - Consolidated Financial Statements 2009 22 All amounts are in thousands of ISK

13. Intangible assets

2008	Goodwill	Software	Other Intangibles	Total
Cost				
Balance at 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
Balance at 31.12.2008	71.540.542	4.526.438	2.477.945	78.544.925
Amortisation				
Balance at 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 losses	(2.397.368)			(2.397.368)
Net foreign currency exchange differences	(128.640)	(9.931)	(290.404)	(428.975)
Balance at 31.12.2008	(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

2009	Goodwill	Software	Other Intangibles	Total
Cost				
Balance at 1.1.2009	71.540.542	4.526.438	2.477.945	78.544.925
Additions during the year	497.626	219.478	248.884	965.988
Reclassified	(1.925.355)	0	1.925.355	0
Net foreign currency exchange differences	707.390	39.322	114.797	861.509
Disposal of a subsidiary	(2.726.117)	(15.329)		(2.741.446)
Sales and disposals during the year		(112.188)		(112.188)
Balance at 31.12.2009	68.094.086	4.657.721	4.766.981	77.518.788
Amortisation				
Balance at 1.1.2009	(2.526.008)	(3.657.805)	(1.100.706)	(7.284.519)
Amortisation during the year		(327.081)	(547.721)	(874.802)
Impairment loss	(7.251.520)			(7.251.520)
Net foreign currency exchange differences	(464.575)	(32.388)	(46.648)	(543.611)
Disposal of a subsidiary	2.726.117			2.726.117
Sales and disposals during the year		112.132		112.132
Balance at 31.12.2009	(7.515.986)	(3.905.142)	(1.695.075)	(13.116.203)
Net book value 31.12.2009	60.578.100	752.579	3.071.906	64.402.585

The following useful lives are used in the calculation of amortisation.

Software	2 - 7 years
Capitalized development	5 years
Customer relationship	5 years
Other	3 - 15 years

13.1 Annual test for impairment

For the purpose of impairment testing, goodwill is allocated to the Company's cash-generating units which represent the lowest level within the Company, 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.

Skipti hf. - Consolidated Financial Statements 2009 23 All amounts are in thousands of ISK

Measurement of trademarks is based on expected future cash flows for the trademarks on the basis of key assumptions about expected useful life and relief from royalty rate and a theoretically calculated tax effect. A discount rate is used which reflects the risk-free interest rate with the addition of specific and estimated future risks associated with the particular trademark.

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

	2009	2008
Domestic Business	5.828.321	1.122.602
International Business	1.423.199	1.274.766
Total impairment	7.251.520	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% - 6%	0% - 2%
Weighted average revenue growth 2010 - 2014	3%	9%
WACC	10% - 19%	10% - 11%

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:

	2009	2008
Domestic Business	50.326.071	57.509.594
International Business	10.252.029	11.504.940
Total goodwill	60.578.100	69.014.534

14. Subsidiaries

	Principle place of operation	Ownership
Míla ehf.	Iceland	100,0%
On-waves ehf.	Global	83,0%
Radíómiðun ehf.	Iceland	75,0%
Sensa ehf.	Iceland	100,0%
Sensa DK Aps	Danmark	100,0%
Siminn DK Aps	Danmark	100,0%
Siminn Denmark Aps	Danmark	100,0%
Siminn UK Ltd.	UK	100,0%
Sirius IT Holding A/S	Danmark	91,3%
Sirius IT Danmark Aps	Danmark	99,5%
Sirius IT Norway A/S	Norway	97,8%
Svenska Sirius IT AB	Sweden	98,6%
Síminn hf.	Iceland	100,0%
Skjá miðlar ehf.	Iceland	100,0%
Skjárinn ehf.	Iceland	100,0%
Staki ehf	Iceland	100,0%
Tæknivörur ehf.	Iceland	100,0%
Já Upplýsingaveitur ehf.	Iceland	100,0%

During the year 2009 the Company disposed of it's 100% interest in Aerofone Ltd, UK based telecommunication company. The carrying value of net liabilities disposed of was ISK 107 million and the Company received ISK 71 million in cash consideration. The Company acquired additional 46,5% stake in Tæknivörur in the year 2009. Furthermore, the Company acquired additional stake in Sirius Holding.

Skipti hf. - Consolidated Financial Statements 2009 24 All amounts are in thousands of ISK

Notes to the Consolidated Financial Statements

15. Associates

The Company's share in the operating result of its associated companies was a loss of ISK 26 million (2008: ISK 119 million).

	Place of registration and operation	Ownership %	2009	2008
Farsímagreiðslur ehf.	Iceland	55,5%	15.794	11.530
Hið íslenska númeraflutningsfélag ehf.	Iceland	25,0%	1.925	3.586
Nordisk Mobil Ísland ehf.	Iceland	50,0%	250	250
Auðkenni ehf	Iceland	20,0%	40.000	0
Stefja ehf	Iceland	43,0%	56.184	0
Trackwell ADS	USA	50,0%	0	12.360
Visma Sirius Pharma Solutions	Sweden	50,0%	117.771	0
Bolignet A/S	Danmark	33,3%	26.166	24.691
Total			258.090	52.417

In prior year, the Company held 62,7% interest in Stefja ehf accounted for as an subsidiary. In beginning of 2009 the share capital of Stefja ehf was increased and as a result the Company interest decreased to 43% and is now accounted as an associate. By end of the year the company acquired additional 15% ownership in Farsímagreiðslur, net assets by the end of the year was ISK 30 million. It has been accounted for as an associate but it will be consolidated into the group from January 1, 2010. The Company acquired a 50% stake in Visma Sirius Pharma solutions, which is a information technology company in Sweden. The Company acquired a 20% stake in Auðkenni ehf, which is a information technology company in Iceland. All the Company's shares in associates has been pledged as security against borrowings.

16. Investment

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

17. Inventories

	2009	2008
Finished goods	1.111.510	835.187
Work in progress	183.290	117.056
TV programs for screening	377.257	325.124
Inventory total	1.672.057	1.277.367

18. Accounts receivables

	2009	2008
Accounts receivables	6.288.749	6.865.058
Allowances for doubtful accounts	(402.175)	(386.855)
	5.886.574	6.478.203
Movement in the allowance for doubtful accounts		
Balance at beginning of the year	(386.855)	(324.869)
Impairment losses recognised on receivables	(159.766)	(163.874)
Amount written off as uncollectible	144.446	101.888
Balance at the end of the year	(402.175)	(386.855)

In determining the recoverability of an account receivable, the Company considers any change in the credit quality of the accounts receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

Skipti hf. - Consolidated Financial Statements 2009 25 All amounts are in thousands of ISK

Notes to the Consolidated Financial Statements

19. Other current assets

	2009	2008
Derivative financial instruments	10.450.570	10.450.570
Prepayments and accrued income	413.135	351.908
Other current assets	595.574	620.253
Other current assets total	11.459.279	11.422.731

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 2008 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 formally lodged claims against New Glitnir and New Kaupthing in 2009. The claims are based on the EUR/ISK rate from the Central Bank of Europe whereas in Skipti's financial accounts for 2009 the claims are based on exchange rates presented by the Icelandic Centreal Bank on the due dates in case of Glitnir and on Kaupthing's own calculations on due dates. Glitnir bank have declined Skipti's claim to set off the assets under the agreement of total ISK 9.510 million (2008: ISK 9.510 million) against Skipti's debt at the Bank. The final treatment of Skipti's derivative agreement at the Bank is therefore subject to uncertainty.

20. Share capital

Issued shares, all fully paid, at year end totaled of 9.650 million shares with a par value of ISK 1 per share. Own shares amounted to ISK 925 million.

21. Non-current liabilities:

Borrowings are specified as follows by currency denominations:	2009	2008
Loans in USD	9.163.581	9.382.471
Loans in EUR	14.173.480	13.985.550
Loans in GBP	6.118.891	5.625.615
Loans in JPY	6.892.966	7.665.572
Loans in CHF	13.910.807	14.136.624
Loans in DKK	9.345.822	8.480.585
Loans in ISK	24.364.170	21.661.090
Current maturities of borrowings	(3.850.224)	(3.573.319)
	80.119.493	77.364.188

Annual maturities of borrowings are specified as follows:

	2009	2008
Mature within 1 year	3.850.224	3.573.319
Mature between 1 and 3 years	5.797.383	7.212.467
Mature between 3 and 5 years	74.274.644	48.666.170
Mature after 5 years	47.466	21.485.551
Total borrowings, including current maturities	83.969.717	80.937.507

Skipti is engaged in discussions with its creditors which have requested that repayment of the company's debt is accelerated from the terms stipulated in the loan agreement. Skipti's liquidity position is strong, with the company holding a net cash of over ISK 20 billion at the turn of the year. However, the company's debts have increased with the fall of the Icelandic króna, as a part of the company's borrowings are in foreign currencies. Skipti had entered into currency swap agreements with the Icelandic banks to hedge against the fall of the króna, however the banks have failed to fulfil the contracts. When the debt, calculated in Icelandic króna, increased it was the assessment of the creditors that the terms of the loan agreement had been disrupted, and they requested acceleration in repayment of the loan facilities using available cash at Skipti. The Company is engaged in constructive discussion with its creditors on this issue and the Directors expect to reach a conclusion shortly.

The terms of the loan agreement include various provisions that limit certain actions by the Company without prior consulting with the lenders. In addition the loan agreements include certain financial covenants.

Skipti hf. - Consolidated Financial Statements 2009 26 All amounts are in thousands of ISK

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

Analysis of movements in the net deferred tax balances during the year is as follows:	2009	2008
Deferred tax at the beginning of the year	267.560	(304.731)
Exchange rate difference and changes within the group	600.509	(254.047)
Income tax posted to the income statement	(199.683)	582.998
Credited directly to equity	(54.418)	243.340
Deferred tax liability at the end of the year	613.968	267.560
The deferred tax asset is allocated as follows:		
Property and equipment	(945.937)	(868.571)
Current assets	31.347	5.343
Hedge reserve	177.869	243.340
Other items	(273.778)	(149.494)
Tax loss carry-forwards	1.624.467	1.036.942
Deferred tax asset at the end of the year	613.968	267.560
Analysed in the balance sheet, after offset of balances within countries, as:		
Deferred tax asset	1.017.207	513.881
Deferred tax liability	(403.239)	(246.321)
	613.968	267.560

Mortgages and guarantees

23. Assets of the Company are mortgaged to guarantee loans, which amount to ISK 53,101 million at the end of the year 2009.

24. The Company has guaranteed loans for Farice hf. that are nominated in foreign currencies and amounted to ISK 1.691 million at the end of the year. The Company's commitments on the lease of a submarine telecommunications cable amount to ISK 289 million annually until 2012. The Company's commitments on account of housing leases amount to ISK 724 million annually. The leases expire in the years 2010-2018

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 had no material transactions with related parties in 2009.

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 22 March 2010.

Skipti hf. - Consolidated Financial Statements 2009 27 All amounts are in thousands of ISK