# Consolidated Financial Statements

# 2011

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 2011 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 27.572 million, compared to ISK 33.633 million in the preceding year. Net loss amounted to ISK 10.573 million compared to ISK 2.512 million in 2010. Earnings before interest, taxes, depreciaiton and amortization (EBITDA) amounted to ISK 6.006 million compared to ISK 5.076 million in the preceding year.

The Company's assets amounted to ISK 79.368 million, the equity amounted to ISK 11.538 million at the year end and the Company's equity ratio was 15%. As regards to changes in equity of the Company, the Board refers to the Consolidated Financial Statements.

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

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 as of 31 December 2011 and operating performance, of the year 2011.

Further, in our opinion the Consolidated Financial Statements and the report of the Board of Directors and the CEO give a fair view of the development and performance of the Company's operations and its position and 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 2011 with their signatures.

Reykjavík, March 29 2012

**Board of Directors**

Skúli Valberg Ólafsson
Chairman of the Board

Örn Guðmundsson

Pétur J. Eiríksson

Jóhanna Waagfjörð

Þorvarður Sveinsson

Steinn Logi Björnsson
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, 2011, 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, 2011, 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.

**Emphasis of Matter**
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, 29 March 2012.

**Deloitte ehf.**

Hilmar A. Alfreðsson
State Authorized Public Accountant

# Consolidated Income Statement
# for the year 2011

| | Notes | 2011 | 2010 |
|---|---|---|---|
| Net sales | 6 | 27.572 | 33.633 |
| Cost of sales | | ( 16.193) | ( 20.953) |
| Gross profit | | 11.379 | 12.680 |
| Other operating income | | 360 | 457 |
| Operating expenses | | ( 9.563) | ( 12.242) |
| Impairment losses | 12 | ( 2.710) | ( 4.916) |
| Operating loss | | ( 534) | ( 4.021) |
| Finance income | | 321 | 390 |
| Income from Investments | | ( 172) | 5.227 |
| Finance costs | | ( 5.012) | ( 4.265) |
| Write-down of FX contracts | | ( 4.451) | 0 |
| Net exchange rate differences | | ( 1.628) | 76 |
| Net financial items | 8 | ( 10.942) | 1.428 |
| Share of profit in associates | 14 | 6 | 0 |
| Loss before tax | | ( 11.470) | ( 2.593) |
| Income tax | 9 | 897 | 81 |
| **Loss for the year** | | ( 10.573) | ( 2.512) |
| **Attributable to:** | | | |
| Owners of the parent company | | ( 10.517) | ( 2.594) |
| Non-controlling interest | | ( 56) | 82 |
| | | ( 10.573) | ( 2.512) |
| **Loss per share:** | | | |
| Basic and diluted loss per share | 10 | (1,21) | (0,30) |

*Skipti hf. - Consolidated Financial Statements 2011* 4 *All amounts are in millions of ISK*

# Consolidated Statement of Comprehensive Income
# for the year 2011

| | 2011 | 2010 |
|---|---|---|
| Loss for the year | ( 10.573) | ( 2.512) |
| **Other Comprehensive Income** | | |
| Translation difference of foreign operations | ( 223) | ( 764) |
| Cash flow hedge | 0 | 768 |
| Tax on items taken directly to equity | 0 | ( 114) |
| | ( 223) | ( 110) |
| **Total comprehensive income** | ( 10.796) | ( 2.622) |
| **Attributable to:** | | |
| Owners of the parent company | ( 10.740) | ( 2.672) |
| Non-controlling interest | ( 56) | 50 |
| | ( 10.796) | ( 2.622) |

*Skipti hf. - Consolidated Financial Statements 2011* 5 *All amounts are in millions of ISK*

# Consolidated Statement of Financial position at 31 December 2011

| | Notes | 31.12.2011 | 31.12.2010 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 14.131 | 14.882 |
| Goodwill | 12 | 46.935 | 49.414 |
| Intangible assets | 12 | 2.372 | 2.966 |
| Restricted cash | | 0 | 562 |
| Other financial assets | 14 | 131 | 151 |
| Deferred tax assets | 21 | 2.212 | 1.340 |
| Non-current assets | | 65.781 | 69.315 |
| **Current assets** | | | |
| Inventories | 15 | 1.253 | 947 |
| Accounts receivables | 16 | 4.053 | 3.645 |
| Assets held for sale | 17 | 0 | 481 |
| Other assets | 18 | 7.480 | 11.245 |
| Cash and cash equivalents | | 801 | 20.039 |
| Current assets | | 13.587 | 36.357 |
| **Total Assets** | | 79.368 | 105.672 |
| **Equity and Liabilities** | | | |
| **Equity** | | | |
| Share capital | 19 | 8.725 | 8.725 |
| Reserves | | 8.604 | 8.604 |
| Translation reserves | | 172 | 395 |
| Retained earnings | | ( 5.879) | 4.638 |
| Equity holders of the parent | | 11.622 | 22.362 |
| Non-controlling interest | | ( 84) | ( 24) |
| Total Equity | | 11.538 | 22.338 |
| **Non-current liabilities** | | | |
| Borrowings | 20 | 58.305 | 72.433 |
| Deferred tax liabilities | 21 | 0 | 42 |
| Non-current liabilities | | 58.305 | 72.475 |
| **Current liabilities** | | | |
| Bank loans | | 1.036 | 993 |
| Accounts payables | | 4.490 | 3.836 |
| Current maturities of borrowings | 20 | 1.452 | 1.968 |
| Liabilities held for sale | 17 | 0 | 484 |
| Provisions | | 0 | 1.183 |
| Other current liabilities | | 2.547 | 2.395 |
| Current liabilities | | 9.525 | 10.859 |
| Total liabilities | | 67.830 | 83.334 |
| **Total equity and liabilities** | | 79.368 | 105.672 |

*Skipti hf. - Consolidated Financial Statements 2011* 6 *All amounts are in millions of ISK*

# Consolidated Statement of Changes in Equity for the year 2011

| | Share capital | Reserves | Translation and hedge reserve | Retained earnings | Attributable to owners of the parent | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| Total equity 1.1.2010 | 8.725 | 8.813 | 473 | 7.232 | 25.242 | 283 | 25.525 |
| Net (loss) / profit | | | | (2.594) | (2.594) | 82 | (2.512) |
| Translation difference on foreign operation | | | (732) | | (732) | (32) | (764) |
| Change in cash flow hedges net of tax | | | 654 | | 654 | | 654 |
| Total comprehensive loss for the year | 8.725 | 8.813 | 395 | 4.638 | 22.570 | 333 | 22.903 |
| Change in non-controlling interest | | | | | 0 | (357) | (357) |
| Buyback of ordinary shares | | (209) | | | (209) | | (209) |
| Total equity 31.12.2010 | 8.725 | 8.604 | 395 | 4.638 | 22.362 | (24) | 22.338 |
| | | | | | | | |
| Net loss | | | | (10.517) | (10.517) | (56) | (10.573) |
| Translation difference on foreign operation | | | (223) | | (223) | | (223) |
| Total comprehensive loss for the year | 8.725 | 8.604 | 172 | (5.879) | 11.622 | (80) | 11.542 |
| Change in non-controlling interest | | | | | 0 | (4) | (4) |
| Total equity 31.12.2011 | 8.725 | 8.604 | 172 | (5.879) | 11.622 | (84) | 11.538 |

*Skipti hf. - Consolidated Financial Statements 2011* 7 *All amounts are in millions of ISK*

# Consolidated Statement of Cash Flow
# for the year 2011

| | Notes | 2011 | 2010 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Operating profit for the year | | ( 534) | ( 4.021) |
| Operational items not affecting cash flow: | | | |
| Depreciation and amortisation | 11, 12 | 6.539 | 9.097 |
| Gain on sale of fixed assets | | ( 11) | 10 |
| Changes in current assets and liabilities | | ( 1.543) | 878 |
| Cash generated by operation | | 4.451 | 5.964 |
| Interest income received during the year | | 318 | 400 |
| Payments of taxes during the year | | ( 28) | ( 122) |
| Interest expenses paid during the year | | ( 2.853) | ( 2.788) |
| Net cash from operating activities | | 1.888 | 3.454 |
| **Investing activities** | | | |
| Investment in property, plant and equipment | 11 | ( 2.587) | ( 3.050) |
| Investment in intangible assets | 12 | ( 192) | ( 214) |
| Proceeds from sale of property, plant and equipment | | 65 | 27 |
| Changes in other investments | | 125 | ( 3) |
| Divestment of subsidiary, net of cash divested | 13 | 2 | 8.144 |
| Changes in restricted cash | | 0 | ( 576) |
| Changes in investment in other companies | | 48 | ( 53) |
| Investing activities | | ( 2.539) | 4.275 |
| **Financing activities** | | | |
| Payments of non-current liabilities | 20 | ( 19.595) | ( 5.109) |
| Bank loans, increase (decrease) | | ( 71) | 0 |
| Buyback of ordinary shares | | 0 | ( 209) |
| Financing activities | | ( 19.666) | ( 5.318) |
| **Increase (decrease) in cash and cash equivalents** | | ( 20.317) | 2.411 |
| **Effects of exchange rate changes on the balance of cash** | | 1.079 | ( 2.696) |
| **Cash and cash equivalents at the beginning of the year** | | 20.039 | 20.324 |
| **Cash and cash equivalents at the end of the year** | | 801 | 20.039 |

*Skipti hf. - Consolidated Financial Statements 2011* 8 *All amounts are in millions 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 2011 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 Consolidated Financial Statements are presented in accordance with the new and revised standards (IFRS / IAS) and new interpretations (IFRIC), applicable in the year 2011. Management believes that those new and revised IFRS standards do not have material effect on amounts reported in the Consolidated Financial Statements.

### 2.2 Standards and Interpretations in issue not yet adopted

The Company has not early adopted new and revised IFRSs that have been issued but are not yet effective. Management believes that implementation of those standards and interpretations do not have a material affect on the Consolidated Financial Statements of the Company.

## 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 the Company.

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

# Notes to the Consolidated Financial Statements

### 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 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 on the acquisition of an 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 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. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each end of reporting period date.

Goodwill is not amortised but is tested for impairment annually or whenever there is an indication that the asset may be impaired. 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. Impairment losses 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 recognised in the income statement 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 is recognised to the extend the Company has deliverred goods or rendered services under an agreement, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company. Revenue is measured at the fair value of consideration received or receivable, net of discounts and sales related taxes, These taxes are regarded as collected on behalf on the authorities.

The Company principally obtains revenue from providing the following services: traffic charges including interconnect and roaming, subscription fees, connection and installation fees, fees for leased lines and leased networks, fees for data network services and sales of customer equipment. Products and services may be sold separately or in bundle package.

Subscription fees are recognized as revenue over the subscription period while revenues from voice and non-voice services are recognised upon actual use. Revenue from the sale of pre-paid phone cards, primarily mobile, is deferred until such such time as the customer uses the airtime, or the credit expires. Connection fees are separately recognized at completion of connection, if the fees do not include any amount for subsequent servicing but only cover the connection costs. Amounts for subsequent servicing are deferred. Revenue from interconnect fees is recognised at the time of the service are performed.

When the Company delivers bundle services and/or equipment as part of one contract or arrangement, the consideration is allocated to separate identifiable components if the delivered item has value to the customer on a standalone basis and there is objective and reliable evidence of the fair value of undelivered items. The consideration is allocated based on their relative fair values, and recognition of the revenue allocated to the delivered item is limited to the amount that is not contingent on the delivery of additional items or other specified performance criteria.

Revenue from equipment sales is recognized when delivery has occurred and the significant risks and rewards have been transferred to the customer, i.e. normally on delivery and when accepted by the customer. Revenues from the maintenance of equpment are recognised over the contract period.

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.

Service and construction contract revenues are recognized using the percentage of completion method. The stage of completion is estimated using measures based on the nature and terms of the contracts. When it is probable that total contract costs will exceed total contract revenue, the expected loss is immediately expensed.

### 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 Consolidated Financial Statements are presented in Icelandic krona which is the parent Company's functional and presentation currency. Each entity of the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. In preparing the financial statements of the individual entities. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the end of reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Translation differences on non-monetary financial assets, such as investments in equity securities, classified as available-for-sale are reported as part of the fair value gain or loss and are included in equity.

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 directly in equity.

On the disposal of a foreign entity, the cumulated amount previously recognised in equity relating to that particular foreign operation is recognised to profit or loss. Any amount 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 accordingly.

### 3.10 Borrowing costs

All 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 current tax payable and deferred tax.

### 3.12.1 Current tax

Current tax payable or recoverable 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 different years or may never be 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 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 is calculated at the tax rates that are expected to apply in the period when 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 either relate to income taxes levied by the same taxation authority on either the same taxable entity or on different taxable entity which intend to settle the 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

Property, plant and equipment are recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured in reliable manner.

Land and buildings held for use are stated in the statement of financial position at their cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Equipment, fixtures and fittings are stated at cost less accumulated depreciation and any accumulated impairment losses.

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 the income statement.

### 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 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.

### 3.15 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 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.

A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has started to implement it or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activitites of the entity.

### 3.18 Financial assets

Finacial assets are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction cost directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

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.

### 3.18.1 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 (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) 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.

### 3.18.2 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 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.

### 3.18.3 Loans and receivables

Accounts 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.

### 3.18.4 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 impacted.

For certain categories of financial asset, such as account 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 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 accounts receivables, where the carrying amount is reduced through the use of an allowance account. When a accounts 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.

### 3.18.5 Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

### 3.19 Financial liabilities

Financial liabilities are recognised when the Copmany becomes a party to the contractual provisions of the instrument. Financial liabilities are classified as either financial liabilities at 'fair value through profit or loss' (FVTPL) or 'other financial liabilities'.

Financial liabilities are initially measured at fair value. Transaction cost that are directly attributable to the acquisition or issue of financial liabilities (other than financial liabilities at FVTPL) are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction cost directly attributable to the acquisition of financial liabilities at FVTPL are recognised immediately in profit or loss.

### 3.19.1 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 income statement.

### 3.19.2 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.

### 3.19.3 Derecognition of financial liabilities

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

### 3.20 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 22.
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 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.

### 3.20.1 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.

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.

### 3.20.2 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.

### 3.20.3 Net investment hedges

Exchange difference arising from the translation of the net investment in foreign operations are recognised directly in equity. Gains and losses on those hedging instruments designated as hedges of the net investments in foreign operations are recognised in equity to the extend that the hedging relationship is effective. These amounts are included in exchange differences on translation of foreign operations as stated in the statement of comprehensive income. Gains and losses relating to hedge ineffectiveness are recognised immediately in the income statement for the period. Gains and losses accumulated in the translation reserve are included in the income statement when the foreign operation is disposed of.

# Notes to the Consolidated Financial Statements

## 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 (note 12).

## 5. Segments

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. In prior years, segment information reported was analysed on the basis of geographical markets. However, information reported to the Company's chief operating decision maker present the Company as a single segment.

## 6. Net sales

| | 2011 | 2010 |
|---|---|---|
| Sales of services | 25.713 | 31.929 |
| Sales of goods | 1.859 | 1.704 |
| | 27.572 | 33.633 |

No customer comprises more than 10% of net sale.

## 7. Personnel

| | 2011 | 2010 |
|---|---|---|
| Average number of employees, adjusted for full-time employment | 993 | 1.351 |

Salaries and related expenses are specified as follows:

| | 2011 | 2010 |
|---|---|---|
| Salaries | 6.581 | 9.372 |
| Related expenses | 1.203 | 1.839 |
| | 7.784 | 11.211 |

Included in salary related expense are pension related expenses amounting to ISK 588 milion (2010: 757 million)

Salaries and other compensation paid to the Company's Board of Directors, CEO and other senior Directors of the Company and its subsidiaries amounted to ISK 455 million (comparible figures for key management personnel in 2010 was ISK 463 million).

Skipti hf. - Consolidated Financial Statements 2011 18 All amounts are in millions of ISK

## 8. Net Financial items

| | 2011 | 2010 |
|---|---|---|
| **Financial income** | | |
| Interest earned | 321 | 390 |
| Income from investments | 0 | 5.227 |
| | 321 | 5.617 |
| **Finance expenses** | | |
| Interest from borrowings | ( 3.829) | ( 3.654) |
| Indexation expenses | ( 1.074) | ( 485) |
| Loss from investments | ( 172) | 0 |
| Other financial expenses | ( 108) | ( 126) |
| | ( 5.183) | ( 4.265) |
| Write-down of FX contracts | ( 4.451) | 0 |
| Net exchange differences | ( 1.628) | 76 |
| Net Financial Items | ( 10.942) | 1.428 |

## 9. Income taxes

In December 2010 the Icelandic Parliament approved an increase in the income tax rate from 18% to 20% effective as of 1 January 2011.

As a result of its net operating loss carryforwards, the Company will not pay any income tax in 2012.

| **Reconciliation of effective income tax:** | 2011 | | 2010 | |
|---|---|---|---|---|
| Loss before tax | | ( 11.470) | | ( 2.593) |
| Income tax using the corporation tax rate | -20,0% | 2.294 | -18,0% | 467 |
| Change in tax rate from 18% to 20% | 0,0% | 0 | -11,6% | 301 |
| Impairment losses with no tax effect | 4,3% | ( 494) | 34,1% | ( 885) |
| Effects of different tax rates of subsidiaries | -0,3% | 30 | -0,5% | 12 |
| Non-deductible expenses | -0,4% | 49 | 10,8% | ( 280) |
| Other changes | 0,7% | ( 82) | -18,0% | 466 |
| Valuation allowance | 7,8% | ( 900) | 0,0% | 0 |
| Effective tax rate | -7,8% | 897 | -3,1% | 81 |

## 10. Earnings (loss) per share

The earnings (loss) 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:

| | 2011 | 2010 |
|---|---|---|
| Net (loss) attributable to equity holders of the parent | ( 10.517) | ( 2.594) |
| Weighted average number of outstanding shares in issue (millions) | 8.725 | 8.725 |
| Total basic and diluted earnings (loss) per share | ( 1,21) | ( 0,30) |

At year end there were neither a stock options plan or convertible loan in place. Therefore is diluted earnings (loss) per share the same as basic earnings (loss) per share.

*Skipti hf. - Consolidated Financial Statements 2011* 19 *All amounts are in millions of ISK*

## 11. Property, plant and equipment

| 2010 | Telecommuni-cations equipment | Buildings and land | Machinery and equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1.1.2010 | 47.782 | 2.216 | 2.156 | 52.154 |
| Additions during the year | 2.752 | 31 | 267 | 3.050 |
| Disposal of a subsidiary | ( 335) | ( 6) | ( 40) | ( 381) |
| Reclassified | ( 1.021) | 667 | 354 | 0 |
| Sales and disposals during the year | ( 9.166) | | ( 78) | ( 9.244) |
| Reclassified as held for sale | ( 32) | | ( 4) | ( 36) |
| Net foreign currency exchange differences | ( 112) | | | ( 112) |
| Balance at 31.12.2010 | 39.868 | 2.908 | 2.655 | 45.431 |
| **Accumulated depreciation and impairment** | | | | |
| Balance at 1.1.2010 | ( 34.565) | ( 511) | ( 1.434) | ( 36.510) |
| Depreciation expense | ( 3.205) | ( 86) | ( 285) | ( 3.576) |
| Disposal of a subsidiary | 216 | 5 | 17 | 238 |
| Reclassified | 1.021 | ( 667) | ( 354) | 0 |
| Sales and disposals during the year | 9.141 | | 66 | 9.207 |
| Reclassified as held for sale | 17 | | 3 | 20 |
| Net foreign currency exchange differences | 72 | | | 72 |
| Balance at 31.12.2010 | ( 27.303) | ( 1.259) | ( 1.987) | ( 30.549) |
| Net book value 31.12.2010 | 12.565 | 1.649 | 668 | 14.882 |

| 2011 | Telecommuni-cations equipment | Buildings and land | Machinery and equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1.1.2011 | 39.868 | 2.908 | 2.655 | 45.431 |
| Additions during the year | 2.254 | 71 | 262 | 2.587 |
| Additions through business combinations | 39 | | 28 | 67 |
| Reclassified | 323 | | | 323 |
| Sales and disposals during the year | ( 567) | ( 13) | ( 357) | ( 937) |
| Net foreign currency exchange differences | ( 286) | | ( 1) | ( 287) |
| Balance at 31.12.2011 | 41.631 | 2.966 | 2.587 | 47.184 |
| **Accumulated depreciation and impairment** | | | | |
| Balance at 1.1.2011 | ( 27.303) | ( 1.259) | ( 1.987) | ( 30.549) |
| Depreciation expense | ( 2.817) | ( 88) | ( 396) | ( 3.301) |
| Additions through business combinations | ( 21) | | ( 14) | ( 35) |
| Reclassified | ( 66) | | | ( 66) |
| Sales and disposals during the year | 503 | 6 | 352 | 861 |
| Net foreign currency exchange differences | 36 | | 1 | 37 |
| Balance at 31.12.2011 | ( 29.668) | ( 1.341) | ( 2.044) | ( 33.053) |
| Net book value 31.12.2011 | 11.963 | 1.625 | 543 | 14.131 |

The official real estate valuation on the Company's buildings and land amounted to ISK 1.458 million at year-end 2011 (2010: ISK 1.447 million) and the insurance value amounted to ISK 3.237 million at the same time (2010: ISK 3.155 million). The insurance value of machinery and equipment amounted to ISK 26.228 million (2010: ISK 24.904 million). All the property, plant and equipment has been pledged as security against borrowings.

*Skipti hf. - Consolidated Financial Statements 2011* 20 *All amounts are in millions of ISK*

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

| | 2011 | 2010 |
|---|---|---|
| Cost of sales | 2.782 | 3.045 |
| Operating expenses | 1.047 | 1.136 |
| Total | 3.829 | 4.181 |

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 |

## 12. Intangible assets

| 2010 | Goodwill | Software | Other Intangibles | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1.1.2010 | 68.094 | 4.658 | 4.767 | 77.519 |
| Additions during the year | | 154 | 60 | 214 |
| Net foreign currency exchange differences | ( 1.518) | ( 55) | ( 419) | ( 1.992) |
| Disposal of a subsidiary | ( 4.925) | ( 181) | ( 828) | ( 5.934) |
| Sales and disposals during the year | | ( 104) | ( 393) | ( 497) |
| Balance at 31.12.2010 | 61.651 | 4.472 | 3.187 | 69.310 |
| **Amortisation** | | | | |
| Balance at 1.1.2010 | ( 7.516) | ( 3.905) | ( 1.695) | ( 13.116) |
| Amortisation during the year | | ( 282) | ( 323) | ( 605) |
| Impairment losses | ( 4.916) | | | ( 4.916) |
| Net foreign currency exchange differences | 195 | 49 | 244 | 488 |
| Disposal of a subsidiary | | 134 | 588 | 722 |
| Sales and disposals during the year | | 104 | 393 | 497 |
| Balance at 31.12.2010 | ( 12.237) | ( 3.900) | ( 793) | ( 16.930) |
| Net book value 31.12.2010 | 49.414 | 572 | 2.394 | 52.380 |

*Skipti hf. - Consolidated Financial Statements 2011* 21 *All amounts are in millions of ISK*

| 2011 | Goodwill | Software | Other Intangibles | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1.1.2011 | 61.651 | 4.472 | 3.187 | 69.310 |
| Additions during the year | | 143 | 49 | 192 |
| Additions through business combinations | 59 | | | 59 |
| Reclassified | | | (323) | (323) |
| Net foreign currency exchange differences | 164 | 25 | (17) | 172 |
| Disposal of a subsidiaries | (283) | | | (283) |
| Sales and disposals during the year | | (82) | 0 | (82) |
| Balance at 31.12.2011 | 61.591 | 4.558 | 2.896 | 69.045 |
| **Amortisation** | | | | |
| Balance at 1.1.2011 | (12.237) | (3.900) | (793) | (16.930) |
| Reclassified | | | 66 | 66 |
| Amortisation during the year | | (240) | (288) | (528) |
| Impairment loss | (2.710) | | | (2.710) |
| Net foreign currency exchange differences | 8 | (15) | 6 | (1) |
| Disposal of a subsidiary | 283 | | | 283 |
| Sales and disposals during the year | | 82 | | 82 |
| Balance at 31.12.2011 | (14.656) | (4.073) | (1.009) | (19.738) |
| Net book value 31.12.2011 | 46.935 | 485 | 1.887 | 49.307 |

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

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

### 12.1 Annual test for impairment

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 are used to calculate recoverable amounts.

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:

| | 2011 | 2010 |
|---|---|---|
| Impairment loss | 2.710 | 4.916 |

In 2011 the impairment charges were primarly due to adverse movements in discount rate and adverse performance against previous plans. The impairment charges during 2010 were primarly driven by a fall in long-term cash flow forecast resulting from economic downturn reflecting weaker contry-level macro economic environments.

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

| | | |
|---|---|---|
| Long term growth rate | 0% - 4% | 0% - 4% |
| Weighted average revenue growth 2012 - 2016 | 3% | 3% |
| WACC | 9% - 19% | 8% - 21% |

*Skipti hf. - Consolidated Financial Statements 2011* 22 *All amounts are in millions of ISK*

## 13. Subsidiaries

| | Principle place of operation | Ownership |
|---|---|---|
| Míla ehf. | Iceland | 100,0% |
| On-waves ehf. | Global | 81,0% |
| Radíómiðun ehf. | Iceland | 75,0% |
| Sensa ehf. | Iceland | 100,0% |
| Sensa DK Aps | Danmark | 100,0% |
| Electric Design Company A/S | Danmark | 100,0% |
| Siminn DK Aps | Danmark | 100,0% |
| Siminn Denmark Aps | Danmark | 100,0% |
| Siminn UK Ltd. | UK | 100,0% |
| Síminn hf. | Iceland | 100,0% |
| Skjá miðlar ehf. | Iceland | 100,0% |
| Skjárinn ehf. | Iceland | 100,0% |
| Staki ehf | Iceland | 100,0% |
| Talenta ehf | Iceland | 100,0% |
| Farsímagreiðslur ehf | Iceland | 55,5% |

In May 2011 the Company invested 100% in Electric Design Company, a company located in Danmark. In August 2011 the Company disposed of it's 100% interest in Tæknivörur, Icelandic based telecom equipment wholesale company. The carrying value that were disposed of was ISK 60 million in current assets and ISK 31 million in current liabilities. The Company received ISK 2 million in net cash consideration in these transactions during 2011.

In July 2010 the Company disposed of it's 100% interest in Sirius IT, Danmark based Information Technology company and in December 2010 the Company disposed of it's 100% interest in Já Upplýsingaveitur, Icelandic based telephone directory service company. The carrying value that were disposed of 2010 in these transactions were ISK 2.970 millin in current assets , ISK 5.123 million in non-current assets, ISK 2.667 million in current liabilities and ISK 1.875 million in non-current liabilities. The Company received ISK 8.144 million in net cash consideration, thereof was ISK 576 million in restricted cash that will be available in July 2012.

## 14. Other financial assets

### 14.1 Associates

The Company's share in the operating result of its associated companies was a profit of ISK 6 million (2010: loss of ISK 0 million).

| | Place of registration and operation | Ownership % | 2011 | 2010 |
|---|---|---|---|---|
| Auðkenni ehf | Iceland | 20% | 40 | 40 |
| Stefja ehf | Iceland | 43% | 60 | 53 |
| Bolignet A/S | Danmark | 0% | 0 | 25 |
| Total | | | 100 | 118 |

During 2011 the Company sold all of its shares in Bolignet A/S, the proceeds was paid in cash. During 2010, the Company sold 8% interest in Hið íslenska númerafélag ehf. All the Company's shares in associates has been pledged as security against borrowings.

Total revenue for the Company's associates was ISK 495 million (2010: ISK 472 million) and net profit was ISK 25 million (2010: net loss ISK 4 millon). By the end of 2011 the total assets and liabilities for the Company's associates was ISK 430 million and ISK 92 million respectively (2010: ISK 397 million and ISK 103 million respectively).

*Skipti hf. - Consolidated Financial Statements 2011* 23 *All amounts are in millions of ISK*

# Notes to the Consolidated Financial Statements

### 14.2 Investment

At the end of the year the Company owned shares in two foreign and seven domestic companies where the ownership was less than 20% with book value of ISK 31 million at the end of the year (2010: ISK 33 million).

## 15. Inventories

| | 2011 | 2010 |
|---|---|---|
| Finished goods | 800 | 594 |
| Work in progress | 3 | 0 |
| TV programs for screening | 450 | 353 |
| Inventory total | 1.253 | 947 |

All finished goods has been pledged as security against borrowings.

## 16. Accounts receivables

| | 2011 | 2010 |
|---|---|---|
| Accounts receivables | 4.413 | 3.972 |
| Allowances for doubtful accounts | ( 360) | ( 327) |
| | 4.053 | 3.645 |
| **Movement in the allowance for doubtful accounts** | | |
| Balance at beginning of the year | ( 327) | ( 402) |
| Impairment losses recognised on receivables | ( 155) | ( 75) |
| Amount written off as uncollectible | 122 | 126 |
| Disposal of subsidiary | 0 | 24 |
| Balance at the end of the year | ( 360) | ( 327) |

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.

## 17. Assets and liabilities classified as held for sale

During 2010 the Company reached an agreement with the Competition Authorities, when one of its entities was in breach of competition law by concluding and implementing certain illegal agreements, that it would sell Tæknivörur. In 2010 the Company classified it as held for sale. In August the Company sold all of its shares in Tæknivörur and the proceed was paid in cash.

*Skipti hf. - Consolidated Financial Statements 2011* 24 *All amounts are in millions of ISK*

## 18. Other current assets

| | 2011 | 2010 |
|---|---|---|
| Derivative financial instruments | 6.000 | 10.451 |
| Restricted cash | 587 | 0 |
| Prepayments and accrued income | 543 | 341 |
| Other current assets | 350 | 453 |
| Other current assets total | 7.480 | 11.245 |

In 2009 Skipti filed claims against Glitnir and Kaupthing for ISK 31.978 million. The claims are based on EUR/ISK rates from Central Bank of Europe during the period when the banking system in Iceland collapsed on October 2008.
Since 2008 Skipti has recorded ISK 9.510 million claim on Glitnir and ISK 941 million claim on Kaupthing. The claims recorded in the Skipti's accounts are based on exchange rates issued by the Icelandic Central Bank on due dates in case of Glitnir and on Kaupthing's own calculations on due dates. Glitnir has accepted the claim, the bank has however rejected Skipti's claim to set off against Skipti's debt to Glitnir. Kaupthing Bank has accepted the claim for an amount of ISK 678 million compared to an amount of ISK 941 million recorded in Skipti's financial accounts. In both instances the banks rejected EUR/ISK rates from on Central Bank of Europe. Legal proceedings have been initiated against Glitnir and negotiations with Kaupthing are ongoing.
The outcome of the disputes is still uncertain and no legal precedents available to assist Skipti in valuing the claims against the banks. Skipti firmly believes to have a strong case in the disputes with the banks.
The worst possible outcome of the pending court proceedings would mean that the current valuation of the claims is overstated. The company therefore decided to take a more prudent approach to value the claims and made a provision of ISK 4.451 in the 2011 accounts. The remaining value of the claims is ISK 6.000 million. The provision does in no way prejudice Skipti´s position in the above mentioned legal proceedings.

## 19. 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.

## 20. Non-current liabilities:

| Borrowings are specified as follows by currency denominations: | 2011 | 2010 |
|---|---|---|
| Loans in USD | 1.595 | 7.709 |
| Loans in EUR | 1.823 | 11.390 |
| Loans in GBP | 691 | 5.182 |
| Loans in JPY | 2.227 | 5.900 |
| Loans in CHF | 3.202 | 12.380 |
| Loans in DKK | 1.667 | 6.527 |
| Loans in ISK | 48.552 | 25.313 |
| Current maturities of borrowings | ( 1.452) | ( 1.968) |
| | 58.305 | 72.433 |

In April 2011 the Company signed agreement with its creditors and during 2011 the Company made additional payments of ISK 17.178 million on its loans.

*Skipti hf. - Consolidated Financial Statements 2011* 25 *All amounts are in millions of ISK*

**Annual maturities of borrowings are specified as follows:**

| | 2011 | 2010 |
|---|---|---|
| In the year 2011 | 0 | 1.968 |
| In the year 2012 | 1.452 | 313 |
| In the year 2013 | 31.008 | 46.819 |
| In the year 2014 | 27.247 | 25.252 |
| In the year 2015 | 4 | 4 |
| In the year 2016 | 4 | 4 |
| Subsequent payments | 42 | 40 |
| Total borrowings, including current maturities | 59.757 | 74.400 |

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.

## 21. Deferred tax for the Company is specified as follows:

| Analysis of movements in the net deferred tax balances during the year is as follows: | 2011 | 2010 |
|---|---|---|
| Deferred tax at the beginning of the year | 1.298 | 614 |
| Exchange rate difference and changes within the company | ( 102) | 737 |
| Income tax posted to the income statement | 1.916 | ( 81) |
| Credited directly to equity | 0 | 28 |
| Valuation allowance | ( 900) | 0 |
| Deferred tax liability at the end of the year | 2.212 | 1.298 |

| The deferred tax asset is allocated as follows: | | |
|---|---|---|
| Property and equipment | ( 585) | ( 636) |
| Current assets | ( 5) | ( 4) |
| Hedge reserve | 250 | 202 |
| Other items | 807 | ( 299) |
| Tax loss carry-forwards | 2.645 | 2.035 |
| Valuation allowance | ( 900) | 0 |
| Deferred tax asset at the end of the year | 2.212 | 1.298 |

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

| | | |
|---|---|---|
| Deferred tax asset | 2.212 | 1.340 |
| Deferred tax liability | 0 | ( 42) |
| | 2.212 | 1.298 |

As a result of its net operating net loss carryforwards, the Company has significant deferred tax assets. IFRS requires a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. Accordingly the Company has recorded ISK 900 million in valuation allowance during 2011.

*Skipti hf. - Consolidated Financial Statements 2011* 26 *All amounts are in millions of ISK*

## 22. 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 20, 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 is responsible for funding and managing foreign exhange risk, interest rate risk, credit risk, counterparty risk management and liquidity management. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed by the Company's Board. A corporate finance committee led by the CEO of the Company meets monthly to review its borrowing portfolio and currency risk. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

### Interest rate risk:

The company is exposed to interest rate risk trough funding and cash management. Changes in interest rates affect the fair value of assets and liabilities. Interest income and interest expenses recognised in the income statement are influenced by changes in interest rates in the market. The Company´s borrowing consists of listed bonds issued in ISK at a fixed rate, foreign currency loans with floating interest rates and other borrowings in ISK with floating interest rate. Interest bearing financial liabilities are higher than interest bearing financial assets and the Company's risk consists therefore of possible increase in interests and increased interest expences.

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. At 31 December 2011 36% (2010: 28%) of the Company's borrowings were fixed for a period of at least one year. 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. For each one hundred basis point changes in market interest rates with all other variables held constant will result in ISK 305 million (2010: ISK 548 million) change in profit and equity. The Company's financial instruments with fixed interests are not sensitive to interest rate changes.

### Foreign exchange risk:

The compay is exposed to changes in the value of ISK relative to others currencies, primarily to EUR, USD, CHF, GBP, JPY and DKK. The largest effect is through the Company’s borrowings as disclosed in note 20 which is a part in foreign currencies, although closely correlated to the Icelandic currency indexes. To a lesser extent, foreign exchange rates affect revenues and operational costs, as well as operations in foreign subsidiaries. A part of the Company’s capital expenditure is in foreign currencies. On 31 December 2011 more than 19% (2010: 40%) of borrowing is in foreign currencies. 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 Company.

The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 31.12.2011 | 31.12.2010 | 31.12.2011 | 31.12.2010 |
| ISK | 12.111 | 15.777 | 54.573 | 30.688 |
| EUR | 107 | 13.043 | 2.156 | 12.773 |
| DKK | 1.245 | 8.050 | 3.262 | 8.468 |
| GBP | 120 | 40 | 710 | 5.196 |
| USD | 3 | 6 | 1.697 | 7.827 |
| CHF | 0 | 2 | 3.202 | 12.383 |
| JPY | 0 | 0 | 2.227 | 5.900 |
| Other | 1 | 1 | 3 | 16 |
| | 13.587 | 36.919 | 67.830 | 83.251 |

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.

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 89 million (2010: ISK 554 million) decrease/increase for 1% change in currency rates.

In 2009 Skipti filed claims against Glitnir and Kaupthing for ISK 31.978 million. The claims are based on EUR/ISK rates from Central Bank of Europe during the period when the banking system in Iceland collapsed on October 2008.
Since 2008 Skipti has recorded ISK 9.510 million claim on Glitnir and ISK 941 million claim on Kaupthing. The claims recorded in the Skipti’s accounts are based on exchange rates issued by the Icelandic Central Bank on due dates in case of Glitnir and on Kaupthing's own calculations on due dates. Glitnir has accepted the claim, the bank has however rejected Skipti's claim to set off against Skipti's debt to Glitnir. Kaupthing Bank has accepted the claim for an amount of ISK 678 million compared to an amount of ISK 941 million recorded in Skipti’s financial accounts. In both instances the banks rejected EUR/ISK rates from on Central Bank of Europe. Legal proceedings have been initiated against Glitnir and negotiations with Kaupthing are ongoing.
The outcome of the disputes is still uncertain and no legal precedents available to assist Skipti in valuing the claims against the banks. Skipti firmly believes to have a strong case in the disputes with the banks. The worst possible outcome of the pending court proceedings would mean that the current valuation of the claims is overstated. The company therefore decided to take a more prudent approach to value the claims and made a provision of ISK 4.451 in the 2011 accounts. The remaining value of the claims is ISK 6.000 million. The provision does in no way prejudice Skipti´s position in the above mentioned legal proceedings.

*Skipti hf. - Consolidated Financial Statements 2011* 28 *All amounts are in millions of ISK*

### 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 | |
|---|---|---|
| | 31.12.2011 | 31.12.2010 |
| Accounts receivables | 4.053 | 3.645 |
| Restricted cash | 587 | 562 |
| Liquid funds | 801 | 20.039 |
| Other financial assets | 893 | 794 |
| Derivative financial instruments | 6.000 | 10.451 |
| Financial guarantees | 676 | 1.128 |
| | 13.010 | 36.619 |

The majority of the Company's accounts receivables are due for maturity within 90 days and largely comprise amounts receivables from customers and business customers. At period end ISK 3.598 million (2010: ISK 3.351 million) of accounts receivables were not yet due for payment. Accounts are monitored by management and provisions for bad and doubtful debts raised where it is deemed appropriate.

The following table presents ageing of receivables that are past due and are presented net of provision for doubtful receivables that have been established

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| 30 days or less | 187 | 135 |
| Between 31-60 days | 56 | 25 |
| Between 61-180 days | 160 | 81 |
| Greater than 180 days | 75 | 53 |
| | 478 | 294 |

Concentrations of credit risk with respect to accounts receivables are limited given that the Company's customer base is large and unrelated. Due to this management believes there is no further credit risk provisions required in excess of the normal provision for bad and doubtful receivables. Amounts charged to administrative expenses during the period ended 2011 were ISK 155 million (2010: ISK 75 million).

### Liquidity risk:

Liquidity risk consist of the risk of losses should the Company not be able to keep its obligations at maturity date. The Company manage liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At period end the Company had facilities and undrawn credit lines amounting to ISK 2,0 billion (2010: ISK 5,6 billion). 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 table includes both interest and principal cash flows. The weighted average effective fixed interest rate is 6,00% (2010: 6,00%) and the weighted average effective floating interest rate is 7,16% (2010: 4,02%).

Skipti hf. - Consolidated Financial Statements 2011 29 All amounts are in millions of ISK

| **At 31 December 2011** | Less than 1 year | 1-2 years | 2-5 years | After 5 years | Total |
|---|---|---|---|---|---|
| Borrowings | 5.674 | 36.183 | 31.789 | 69 | 73.715 |
| Trade and other payables | 8.073 | | | | 8.073 |
| | 13.747 | 36.183 | 31.789 | 69 | 81.788 |

| **At 31 December 2010** | Less than 1 year | 1-2 years | 2-5 years | After 5 years | Total |
|---|---|---|---|---|---|
| Borrowings | 4.554 | 55.072 | 30.310 | 69 | 90.005 |
| Trade and other payables | 8.407 | | | | 8.407 |
| | 12.961 | 55.072 | 30.310 | 69 | 98.412 |

## Mortgages and guarantees

23. Assets of the Company are mortgaged to guarantee loans, which amount to ISK 29.507 million at the end of the year 2011 (2010: 46.001 million).

24. The Company has guaranteed loans for Farice hf. that are nominated in foreign currencies amounted to ISK 429 million. Guarantee for the rural high-speed project for Telecommunication Fund amounted to ISK 247 million at the end of the year. The Company's commitments on the lease of a submarine telecommunications cable amount to ISK 135 million until 2012. The Company's commitments on account of housing leases with the remaining balance of ISK 3.441 million at the end of the year. The amount will be charged at the relevant rental time of each agreement. The rental agreements will materialise in the years 2012 - 2018.

## 25. Legal proceedings

The Company is currently, and may be from time to time, involved in a number of legal proceedings. These proceedings primarily involve claims arising out of commercial law issues and matters relating to telecommunications regulations and competition law. While acknowledging the uncertainties of litigation, the Company is of the opinion that based on the information currently available, these matters, except as discussed below, will be resolved without any material adverse effect individually or in the aggregate on the Company's financial position. The Company have made ISK 4.451 million in provision (2010: ISK 1.183 million)for the legal disputes discussed in this note. For legal disputes, in which the Company assess it to be probable (more likely than not) that an economic outflow will be required to settle the obligation, provisions have been made based on management's best estimate.

In 2006 Geolink filed a claim related to the alleged unlawful termination of an Agreement between Síminn hf and Geolink (now Seamobile) that was entered into 2003 concerning the provision of the Oceancell Services. Geolink referred the dispute to the Arbitration Tribunal in Paris, acting under rules of the International Chamber of Commerce (ICC). In October 2010 the Arbitration Tribunal in Paris concluded that Síminn was liable for damages, particularly in respect of an alleged loss of future profits based on an agreement that Landssími Íslands hf. entered into with Geolink in 2003 concerning telecommunications services in international waters. An agreement was reached between the parties that Síminn hf paid €4,5 million (ISK 750 million) in May 2011.

In 2009 Skipti filed claims against Glitnir and Kaupthing for ISK 31.978 million. The claims are based on EUR/ISK rates from Central Bank of Europe during the period when the banking system in Iceland collapsed on October 2008. Glitnir has accepted the claim, the bank has however rejected Skipti's claim to set off against Skipti's debt to Glitnir. Kaupthing Bank has accepted the claim for an amount of ISK 678 million. In both instances the banks rejected EUR/ISK rates from on Central Bank of Europe. Legal proceedings have been initiated against Glitnir and negotiations with Kaupthing are ongoing. The outcome of the disputes is still uncertain and no legal precedents available to assist Skipti in valuing the claims against the banks. Skipti firmly believes to have a strong case in the disputes with the banks.

In March 2011, the Company received a letter from the Icelandic Tax Authority regarding financial expenses related to the acquisition of Síminn in 2005 and also expenses related to any refinancing of the initial loans. In subsequent communication, the Tax Authority argued that all financial expenses related to the merger were not tax deductable. The Company strongly opposed to these arguments as unfounded. As of today, the Tax Authorities have not made any formal decision on this matter. Although there can be no assurance that an unfavorable outcome of this ruling would not have a material adverse effect on our operating results, liquidity or financial position, Skipti believes that the claims are without merit and intends to vigorously defend these rulings.

*Skipti hf. - Consolidated Financial Statements 2011* 30 *All amounts are in millions of ISK*

## 26. Related party transactions

Transactions between the parent 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 2011.

Compensation paid to the Company's Board, CEO and other senior Directors of the Company and its subsidiaries is disclosed in note 7.

## Events after the balance sheet date:

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

28. The consolidated financial statements were approved by the board of directors and authorised for issue on the 29 March 2012.