Condensed Consolidated Interim Financial Statements

30 June 2012

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

Contents

Endorsement by the Board of Directors and CEO

The Condensed Consolidated Interim Financial Statements of Skipti hf. for the period 1. January to 30 June 2012 consist of the Condensed Consolidated Interim Financial Statements of Skipti hf. and its subsidiaries, together referred to as the Company. The Condensed Consolidated Interim Financial Statements are prepared in accordance with International Financial Reporting Standards for Interim Financial Statements, IAS 34 as adopted by the EU.

The total sales for Skipti hf. for the first six months of the year amounted to ISK 14.079 million and the net loss amounted to ISK 2.562 million. The Company's assets amounted to ISK 77.747 million, the equity amounted to ISK 9.042 million at the end of the period and the Company's equity ratio was 12%.

It is our opinion that the accounting policies used are appropriate and that these Condensed Consolidated Interim 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 30 June 2012 and operating performance, of the six months period ended 30 June 2012.

Further, in our opinion the Condensed Consolidated Interim 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 Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2012 with their signatures.

Reykjavík, August 30 2012

Board of Directors

Skúli Valberg Ólafsson
Chairman of the Board

Þorvarður Sveinsson

Jóhanna Waagfjörð

Dagný Halldórsdóttir

Magnús Scheving Thorsteinsson

Steinn Logi Björnsson
CEO

Report on review of Interim Financial Information

To the Board of Directors and Shareholders of Skipti hf.
We have reviewed the accompanying condensed consolidated statement of financial position of Skipti hf. as of 30 June 2012 and the condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information").

Management's and the Board of directors Responsibility for the Interim Financial Statements
Management and the Board of directors are responsible for the preparation and fair presentation of this condensed consolidated interim financial information in accordance with IAS 34 as adopted by the EU.

Auditor's Responsibility
Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements, ISRE 2410. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information does not give a true and fair view of the financial position of the entity as of 30 June 2012, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34 as adopted by the EU.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 11 to the condensed consolidated interim financial statements, which states that the Company is in a disagreement with Glitnir bank regarding derivative agreements.

Kópavogur, 30 August 2012.

Deloitte ehf.

Hilmar A. Alfreðsson
State Authorized Public Accountant

Condensed Consolidated Interim Income Statement
for the period 1 January - 30 June 2012

	2012	2011
Net sales	14.079	13.486
Cost of sales	(7.856)	(7.833)
Gross profit	6.223	5.653
Other operating income	201	251
Operating expenses	(4.903)	(4.215)
Impairment losses	(1.312)	(239)
Operating profit	209	1.450
Finance income	145	170
Finance costs	(2.995)	(2.640)
Net exchange rate differences	(96)	(1.469)
Net financial items	(2.946)	(3.939)
Share of profit in associates	4	0
Loss before tax	(2.733)	(2.489)
Income tax	171	574
Loss for the period	(2.562)	(1.914)
Attributable to:		
Owners of the parent company	(2.546)	(1.889)
Non-controlling interest	(16)	(25)
	(2.562)	(1.914)
Loss per share:		
Basic and diluted loss per share	(0,29)	(0,22)

All amounts are in millions of ISK

Condensed Consolidated Interim Statement of Comprehensive Income for the period 1 January - 30 June 2012

	2012	2011
Loss for the period	(2.562)	(1.914)
Other Comprehensive Income		
Translation difference of foreign operations	54	67
	54	67
Total comprehensive loss	(2.508)	(1.847)
Attributable to:		
Owners of the parent company	(2.492)	(1.822)
Non-controlling interest	(16)	(25)
	(2.508)	(1.847)

All amounts are in millions of ISK

Condensed Consolidated Interim Statement of Financial position at 30 June 2012

	30.6.2012	31.12.2011
Assets		
Non-current assets		
Property, plant and equipment	13.858	14.131
Goodwill	45.594	46.935
Intangible assets	2.262	2.372
Other financial assets	135	131
Deferred tax assets	2.416	2.212
Non-current assets	64.265	65.781
Current assets		
Inventories	1.250	1.253
Accounts receivables	4.293	4.053
Other assets	7.603	7.480
Cash and cash equivalents	336	801
Current assets	13.482	13.587
Total Assets	77.747	79.368
Equity and Liabilities		
Equity		
Share capital	8.725	8.725
Reserves	8.604	8.604
Translation reserves	226	172
Retained earnings	(8.504)	(5.879)
Equity holders of the parent	9.051	11.622
Non-controlling interest	(9)	(84)
Total Equity	9.042	11.538
Non-current liabilities		
Borrowings	60.099	58.305
Non-current liabilities	60.099	58.305
Current liabilities		
Bank loans	800	1.036
Accounts payables	4.317	4.490
Current maturities of borrowings	1.249	1.452
Other current liabilities	2.240	2.547
Current liabilities	8.606	9.525
Total liabilities	68.705	67.830
Total equity and liabilities	77.747	79.368

All amounts are in millions of ISK

Condensed Consolidated Interim Statement of Changes in Equity
for the period 1 January - 30 June 2012

	Share capital	Reserves	Translation and hedge reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total equity
Total equity 1.1.2011	8.725	8.604	395	4.638	22.362	(24)	22.338
Net loss for the period				(1.889)	(1.889)	(25)	(1.914)
Translation difference on foreign operation			67		67		67
Total comprehensive loss for the period	8.725	8.604	462	2.749	20.540	(49)	20.491
Change in non-controlling interest					0	(7)	(7)
Total equity 30.06.2011	8.725	8.604	462	2.749	20.540	(56)	20.484
Total equity 1.1.2012	8.725	8.604	172	(5.879)	11.622	(84)	11.538
Net loss for the period				(2.546)	(2.546)	(16)	(2.562)
Translation difference on foreign operation			54		54		54
Total comprehensive loss for the period	8.725	8.604	226	(8.425)	9.130	(100)	9.030
Change in non-controlling interest				(79)	(79)	91	12
Total equity 30.6.2012	8.725	8.604	226	(8.504)	9.051	(9)	9.042

All amounts are in millions of ISK

Condensed Consolidated Interim Statement of Cash Flow
for the period 1 January - 30 June 2012

	Notes	2012	2011
Cash flow from operating activities			
Operating profit for the period		209	1.449
Operational items not affecting cash flow:			
Depreciation and amortisation	6, 7	3.162	2.070
Gain on sale of fixed assets		(4)	(3)
Changes in current assets and liabilities		(411)	(2.121)
Cash generated by operation		2.956	1.395
Interest income received during the period		134	127
Payments of taxes during the period		(15)	(21)
Interest expenses paid during the period		(1.183)	(1.683)
Net cash from operating activities		1.892	(182)
Investing activities			
Investment in property, plant and equipment		(1.300)	(1.272)
Investment in intangible assets		(112)	(85)
Proceeds from sale of property, plant and equipment		9	29
Changes in other investments		(41)	0
Net investments in subsidiaries		(1)	0
Changes in investment in other companies		1	1
Investing activities		(1.444)	(1.327)
Financing activities			
New borrowings		5	0
Payments of non-current liabilities		(683)	(18.704)
Bank loans, increase (decrease)		(236)	(71)
Financing activities		(914)	(18.775)
Increase (decrease) in cash and cash equivalents		(466)	(20.284)
Effects of exchange rate changes on the balance of cash		1	1.105
Cash and cash equivalents at the beginning of the year		801	20.039
Cash and cash equivalents at the end of the period		336	860

All amounts are in millions of ISK

Notes to the Condensed Consolidated Interim Financial Statements

1. General information

Skipti hf. is a limited liability company incorporated in Iceland. The Condensed Consolidated Interim Financial Statements for the first six months ended 30 June 2012 comprise Skipti hf. (the parent) and its subsidiaries (together referred to as the Company).

These Condensed Consolidated Interim Financial Statements are presented in ISK, which is the Company's functional currency.

2. Significant Accounting Policies

The Condensed Consolidated Interim Financial Statments have been prepared in accordance with International Accounting Standards (IAS) 34, Interim Financial Reporting, as adopted by European Union (EU). These Condensed Consolidated Interim Financial Statements do not include all of the information required for Annual Financial Statements, and should be read in conjunction with the Consolidated Financial Statements of the Company for the year ended 31 December 2011.

The Condensed Interim Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments.

The same accounting policies, presentation and methods of computation are followed in these Condensed Financial Statements as were applied in the preparation of the Company's financial statements for the year ended 31 December 2011.

3. Net sales

	1.1 - 30.6. 2012	1.1 - 30.6. 2011
Sales of services	13.292	12.647
Sales of goods	787	839
	14.079	13.486

No customer comprises more than 10% of net sale.

4. Net financial items

	1.1 - 30.6. 2012	1.1 - 30.6. 2011
Financial income		
Interest income	132	170
Other financial income	13	0
	145	170
Finance expenses		
Interest on borrowings	(2.145)	(1.706)
Indexation expenses	(759)	(681)
Income / (Loss) from investments	0	(192)
Other financial expenses	(91)	(61)
	(2.995)	(2.640)
Net exchange rate differences	(96)	(1.469)
Net financial items	(2.946)	(3.939)

All amounts are in millions of ISK

5. Loss per share

The calculation of loss per share is based on the following data:

	30.6.2012	30.6.2011
Net loss for the 6 months ended 30 June attributable to equity holders	(2.546)	(1.890)
Total average number of shares outstanding during the period (in thousands)	8.725	8.725
Loss per share	(0,29)	(0,22)

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

6. Property, plant and equipment

	Telecommunication equipment	Buildings and land	Machinery and equipment	Total
At 1 January 2012				
Cost	41.631	2.966	2.587	47.184
Accumulated depreciation	(29.668)	(1.341)	(2.044)	(33.053)
Net book value	11.963	1.625	543	14.131
Six months ended 30 June 2012				
Opening net book value	11.963	1.625	543	14.131
Additions and exchange differences	1.207	10	134	1.351
Disposals and reclassification	(116)		61	(55)
Depreciation	(1.402)	(43)	(124)	(1.569)
Net book value at 30 June	11.652	1.592	614	13.858
At 30 June 2012				
Cost	42.679	2.976	2.707	48.362
Accumulated depreciation	(31.027)	(1.384)	(2.093)	(34.504)
Net book value	11.652	1.592	614	13.858

Depreciation and Amortisation (see note 7) are specified as follows in the condensed interim income statement:

	1.1 - 30.6. 2012	1.1 - 30.6. 2011
Cost of sales	1.364	1.347
Operating expenses	486	484
Total	1.850	1.831

7. Intangible assets

	Goodwill	Software	Other Intangibles	Total
At 1 January 2012				
Cost	61.591	4.558	2.896	69.045
Accumulated amortisation	(14.656)	(4.073)	(1.009)	(19.738)
Net book value	46.935	485	1.887	49.307
Six months ended 30 June 2012				
Opening net book value	46.935	485	1.887	49.307
Additions and exchange differences	(29)	55	116	142
Amortisation		(123)	(158)	(281)
Impairment loss	(1.312)			(1.312)
Net book value at 30 June	45.594	417	1.845	47.856
At 30 June 2012				
Cost	61.525	4.613	3.004	69.142
Accumulated amortisation	(15.931)	(4.196)	(1.159)	(21.286)
Net book value	45.594	417	1.845	47.856

Impairment loss
The carrying value of goodwill of one of the Company's CGU has been impaired by ISK 1.312 million following a test for impairment triggered by adverse performance against previous plans.

8. Other financial assets

	30.6.2012	31.12.2011
Investment in associated Companies	104	100
Investment in other companies	31	31
Other financial assets total	135	131

9. Inventories

	30.6.2012	31.12.2011
Finished goods	763	800
Work in progress	11	3
TV programs for screening	476	450
Inventory total	1.250	1.253

10. Accounts Receivables

	30.6.2012	31.12.2011
Accounts receivables	4.642	4.413
Allowances for doubtful accounts	(349)	(360)
Accounts receivables total	4.293	4.053

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11. Other current assets

	30.6.2012	31.12.2011
Derivative financial instruments	6.000	6.000
Restricted cash	583	587
Prepayments and accrued income	614	543
Other current assets	406	350
Other current assets total	7.603	7.480

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.

In 2011 Skipti made a provision of ISK 4.451 million to take a more prudent approuch in the valuation of the claims. 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.

12. Share capital

Issued shares at the end of the period amounted to 9.650 million shares with a par value of ISK 1 per share. Own shares amounted to ISK 926 million. There were no movements in the issued shares of the Company in the current period.

13. Non-current liabilities

Borrowings are specified as follows by currency denominations:

	30.6.2012	31.12.2011
Loans in USD	1.570	1.595
Loans in EUR	1.708	1.823
Loans in GBP	692	691
Loans in JPY	2.212	2.227
Loans in CHF	3.154	3.202
Loans in DKK	1.720	1.667
Loans in ISK	50.292	48.552
Current maturities of borrowings	(1.249)	(1.452)
	60.099	58.305

All amounts are in millions of ISK

Aggregated maturities of borrowings are as follows:

In 1.7.2012 - 30.6.2013 / 2012	1.249	1.452
In 1.7.2013 - 30.6.2014 / 2013	60.041	31.008
In 1.7.2014 - 30.6.2015 / 2014	5	27.247
In 1.7.2015 - 30.6.2016 / 2015	5	4
In 1.7.2016 - 30.6.2017 / 2016	5	4
Subsequent payments	43	42
Total borrowings, including current maturities	61.348	59.757

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. The company have pledge all material assets, including buildings, telecommunicaiton equipment, machinery and equipment, inventories and bank accounts to secure banking facilities granted.

14. Deferred tax

Deferred income tax assets is recognised based on assumption of the management that this assets will be redeemed in coming years. 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.

	30.6.2012	31.12.2011
Deferred tax at the beginning of the year	2.212	1.298
Exchange rate difference and changes within the company	33	(102)
Income tax posted to the income statement	171	1.916
Valuation allowance	0	(900)
Deferred tax assets total	2.416	2.212

15. Other liabilities

	30.6.2012	31.12.2011
Accrued expenses	1.466	1.820
VAT	591	563
Other	183	164
Other liabilities total	2.240	2.547

All amounts are in millions of ISK

16. 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. 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. An agreement was reached between the parties and 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 2011 Skipti made a provision of ISK 4.451 million to take a more prudent approuch in the valuation of the claims. 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.

In 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.

In May 2012 the Icelandic Competition Authority (ICA) concluded that Síminn abused its market dominant position and thereby violated article 11 of the Icelandic competition act and article 54 of the EEA agreement with alleged by applying a competition impeding margin squeeze behaviour on its competitors. A fine was imposed for the amount of ISK 390 million. Skipti believes that the conclusions are without merit and intends to vigorously defend these rulings.

17. Related party transactions

The Company had no material transactions with related parties during the period.

18. Events after the balance sheet date

In August the Company made additional payment of ISK 585 million on its loans .

19. Approval of the Condensed Consolidated Interim Financial Statements.

The Condensed Consolidated Interim Financial Statements were approved by the board of directors and authorised for issue on 30 August 2012.