Condensed Consolidated Interim Financial Statements

30 June 2011

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 2011 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 13.486 million and the net loss amounted to ISK 1.915 million. The Company's assets amounted to ISK 87.174 million, the equity amounted to ISK 20.483 million at the end of the period and the Company's equity ratio was 24%.

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 2011 and operating performance, of the six months period ended 30 June 2011.

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 2011 with their signatures.

Reykjavík, August 26 2011

Board of Directors

Skúli Valberg Ólafsson
Chairman of the Board

Jón Örn Guðmundsson

Pétur J. Eiríksson

Jóhanna Waagfjörð

Þorvarður Sveinsson

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 balance sheet of Skipti hf. as of June 30, 2011 and the related condensed consolidated statements of income, condensed consolidated changes in equity and condensed consolidated cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards as adopted the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. 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 interim financial information does not give a true and fair view of the financial position of the entity as at June 30, 2011, and of its financial performance and its cash flows for the six month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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

Reykjavík, 26 August 2011.

Deloitte hf.

Hilmar A. Alfreðsson
State Authorized Public Accountant

Condensed Consolidated Interim Income Statement for the period 1 January - 30 June 2011

	2011	2010
Net sales	13.486	19.641
Cost of sales	(7.833)	(12.453)
Gross profit	5.653	7.188
Other operating income	251	179
Operating expenses	(4.215)	(5.672)
Impairment losses	(239)	0
Operating profit	1.450	1.694
Finance income	170	164
Finance costs	(2.640)	(2.440)
Net exchange rate differences	(1.469)	574
Net financial items	(3.939)	(1.701)
Share of loss in associates	0	(6)
Loss before tax	(2.489)	(13)
Income tax	574	6
Loss for the period	(1.915)	(6)
Attributable to:		
Owners of the parent company	(1.890)	(69)
Non-controlling interest	(25)	63
	(1.915)	(6)
Loss per share:		
Basic and diluted loss per share	(0,22)	(0,01)

All amounts are in millions of ISK

Condensed Consolidated Interim Statement of Comprehensive Income for the period 1 January - 30 June 2011

	2011	2010
Loss for the period	(1.915)	(6)
Other Comprehensive Income		
Translation difference of foreign operations	67	(295)
Cash flow hedge	0	(782)
Tax on items taken directly to equity	0	140
	67	(937)
Total comprehensive income	(1.848)	(943)
Attributable to:		
Owners of the parent company	(1.823)	(974)
Non-controlling interest	(25)	31
	(1.848)	(943)

All amounts are in millions of ISK

Condensed Consolidated Interim Statement of Financial position at 30 June 2011

	30.6.2011	31.12.2010
Assets		
Non-current assets		
Property, plant and equipment	14.582	14.882
Goodwill	49.540	49.414
Intangible assets	2.853	2.966
Other financial assets	757	713
Deferred tax assets	1.900	1.340
Non-current assets	69.632	69.315
Current assets		
Inventories	1.076	947
Accounts receivables	3.992	3.645
Other assets	11.613	11.726
Cash and cash equivalents	861	20.039
Current assets	17.542	36.357
Total Assets	87.174	105.672
Equity and Liabilities		
Equity		
Share capital	8.725	8.725
Reserves	8.604	8.604
Translation reserves	462	395
Retained earnings	2.748	4.638
Equity holders of the parent	20.539	22.362
Non-controlling interest	(56)	(24)
Total Equity	20.483	22.338
Non-current liabilities		
Borrowings	58.334	72.433
Deferred tax liabilities	0	42
Non-current liabilities	58.334	72.475
Current liabilities		
Bank loans	1.000	993
Accounts payables	3.380	3.836
Current maturities of borrowings	1.591	1.968
Provisions	0	1.183
Other current liabilities	2.386	2.879
Current liabilities	8.357	10.859
Total liabilities	66.691	83.334
Total equity and liabilities	87.174	105.672

All amounts are in millions of ISK

Condensed Consolidated Interim Statement of Changes in Equity
for the period 1 January - 30 June 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
Total comprehensive loss for the period			(904)	(70)	(973)	31	(942)
Change in non-controlling interest					0	(33)	(33)
Total equity 30.06.2010	8.725	8.813	(431)	7.162	24.268	280	24.548
Total equity 1.1.2011	8.725	8.604	395	4.638	22.362	(24)	22.338
Total comprehensive loss for the period			67	(1.890)	(1.823)	(25)	(1.848)
Change in non-controlling interest					0	(7)	(7)
Total equity 30.6.2011	8.725	8.604	462	2.748	20.539	(56)	20.483

All amounts are in millions of ISK

Condensed Consolidated Interim Statement of Cash Flow
for the period 1 January - 30 June 2011

	2011	2010
Cash flow from operating activities		
Operating profit for the period	1.450	1.694
Operational items not affecting cash flow:		
Depreciation and amortisation	2.070	2.049
Gain on sale of fixed assets	(3)	(3)
Changes in current assets and liabilities	(2.121)	(183)
Cash generated by operation	1.396	3.557
Interest income received during the period	127	152
Payments of taxes during the period	(21)	(215)
Interest expenses paid during the period	(1.683)	(1.772)
Net cash (to) from operating activities	(181)	1.722
Investing activities		
Investment in property, plant and equipment	(1.272)	(1.264)
Investment in intangible assets	(85)	(121)
Proceeds from sale of property, plant and equipment	29	12
Changes in other investments	0	1
Changes in investment in other companies	1	(51)
Investing activities	(1.327)	(1.423)
Financing activities		
Payments of non-current liabilities	(18.704)	(1.830)
Bank loans, increase (decrease)	(71)	0
Financing activities	(18.775)	(1.830)
Increase (decrease) in cash and cash equivalents	(20.283)	(1.531)
Effects of exchange rate changes on the balance of cash	1.105	(2.232)
Cash and cash equivalents at the beginning of the year	20.039	20.324
Cash and cash equivalents at the end of the period	861	16.561

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 2011 comprise Skipti hf. (the parent) and its subsidiaries (together referred 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 2010.

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 2010.

3. Net sales

	1.1 - 30.6. 2011	1.1 - 30.6. 2010
Sales of services	12.647	18.910
Sales of goods	839	731
	13.486	19.641

No customer comprises more than 10% of net sale.

4. Net financial items

	1.1 - 30.6. 2011	1.1 - 30.6. 2010
Financial income		
Interest income	170	164
	170	164
Finance expenses		
Interest on borrowings	(1.706)	(1.833)
Indexation expenses	(681)	(510)
(Loss) / Income from investments	(192)	1
Other financial expenses	(61)	(98)
	(2.640)	(2.440)
Net exchange rate differences	(1.469)	574
Net financial items	(3.939)	(1.702)

All amounts are in millions of ISK

5. Loss per share

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

	30.6.2011	30.6.2010
Net loss for the 6 months ended 30 June attributable to equity holders	(1.890)	(69)
Total average number of shares outstanding during the period (in thousands)	8.725	8.725
Loss per share	(0,22)	(0,01)

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

	Telecommuni-cation equipment	Buildings and land	Machinery and equipment	Total
At 1 January 2011				
Cost	39.868	2.908	2.655	45.431
Accumulated depreciation	(27.303)	(1.259)	(1.987)	(30.549)
Net book value	12.565	1.649	668	14.882
Six months ended 30 June 2011				
Opening net book value	12.565	1.649	668	14.882
Additions and exchange differences	1.099	21	173	1.293
Disposals and reclassification	(5)	(5)	(13)	(23)
Depreciation	(1.378)	(43)	(149)	(1.570)
Net book value at 30 June	12.280	1.622	679	14.582
At 30 June 2011				
Cost	40.860	2.921	2.730	46.511
Accumulated depreciation	(28.580)	(1.299)	(2.050)	(31.929)
Net book value	12.280	1.622	680	14.582

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

	1.1 - 30.6. 2011	1.1 - 30.6. 2010
Cost of sales	1.347	1.456
Operating expenses	484	593
Total	1.831	2.049

7. Intangible assets

	Goodwill	Software	Other Intangibles	Total
At 1 January 2011				
Cost	61.651	4.472	3.187	69.310
Accumulated amortisation	(12.237)	(3.900)	(793)	(16.930)
Net book value	49.414	572	2.394	52.380
Six months ended 30 June 2011				
Opening net book value	49.414	572	2.394	52.380
Additions and exchange differences	365	83	65	513
Amortisation		(118)	(143)	(261)
Impairment loss	(239)			(239)
Net book value at 30 June	49.540	537	2.316	52.393
At 30 June 2011				
Cost	62.133	4.570	3.301	70.004
Accumulated amortisation	(12.593)	(4.033)	(985)	(17.611)
Net book value	49.540	537	2.316	52.393

Impairment loss

The carrying value of goodwill of one of the Company's CGU has been impaired by ISK 239 million following a test for impairment triggered by adverse performance against previous plans.

8. Other financial assets

	30.6.2011	31.12.2010
Investment in associated Companies	119	118
Investment in other companies	33	33
Restricted cash	605	562
Other financial assets total	757	713

9. Inventories

	30.6.2011	31.12.2010
Finished goods	712	594
Work in progress	23	0
TV programs for screening	341	353
Inventory total	1.076	947

10. Accounts Receivables

	30.6.2011	31.12.2010
Accounts receivables	4.339	3.972
Allowances for doubtful accounts	(347)	(327)
Accounts receivables total	3.992	3.645

All amounts are in millions of ISK

Notes to the Condensed Consolidated Interim Financial Statements

11. Other current assets

	30.6.2011	31.12.2010
Derivative financial instruments	10.451	10.451
Prepayments and accrued income	663	341
Assets held for sale	60	481
Other current assets	439	453
Other current assets total	11.613	11.726

For the whole year 2008 Skipti hedged it's foreign exchange risk with derivative agreements with Glitnir bank and Kaupthing bank (the Banks). In early October 2008 the Icelandic Financial Supervisory Authority (the FSA) used power granted by the Icelandic Parliament to take control of the banks. Later in that month the FSA decided to transfer a substantial part of the Banks assets and operations into new banks, New Glitnir bank and New Kaupthing bank (the New Banks). However, as a general rule the New Banks did not take over derivative agreements, including Skipti's hedging agreements. Skipti formally lodged claims against New Glitnir and New Kaupthing in 2009. The claims are based on the EUR/ISK rate from the Central Bank of Europe whereas in Skipti's financial accounts the claims are based on exchange rates issued by the Icelandic Centreal Bank on due dates in case of Glitnir and on Kaupthing's own calculations on due dates. Glitnir has accepted the claim from Skipti as a valid claim against the bank. The Bank has however declined Skipti's claim to set off the assets under the agreement of total ISK 9.510 million (2009: ISK 9.510 million) against Skipti's debt at the Bank and does not accept the rate from Central Bank of Europe Kaupthing Bank has accepted the claim from Skipti but for an amount of ISK 678 million compared to an amount of ISK 941 million posted in Skipti's financial accounts. Legal proceedings have been initiated against the Banks to reclaim the derivative contracts. The final treatment of Skipti's derivative agreement at the Bank is therefore subject to uncertainty.

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:

	30.6.2011	31.12.2010
Loans in USD	1.561	7.709
Loans in EUR	2.080	11.390
Loans in GBP	694	5.182
Loans in JPY	2.011	5.900
Loans in CHF	3.456	12.380
Loans in DKK	1.689	6.527
Loans in ISK	48.434	25.313
Current maturities of borrowings	(1.591)	(1.968)
	58.334	72.433

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Aggregated maturities of borrowings are as follows:

In 1.7.2011 - 30.6.2012 / 2011	1.591	1.968
In 1.7.2012 - 30.6.2013 / 2012	764	313
In 1.7.2013 - 30.6.2014 / 2013	57.515	46.819
In 1.7.2014 - 30.6.2015 / 2014	7	25.252
In 1.7.2015 - 30.6.2016 / 2015	4	4
Subsequent payments	44	44
Total borrowings, including current maturities	59.925	74.400

In April Skipti signed an agreement on all major terms with its creditors on a payment of ISK 17,2 billion in total on the company's syndicated loans. In June Skipti executed it's options in the agreement to convert ISK 27,1 billion of foreign denominated loans to non-index linked ISK denominated loans. The conversion increased the average interest rates by 165 bps.

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. This assumption is based on company's budgets for the coming years. Such budgets always include some degree of uncertainty that could approving wrong, substantially affect value of the income tax assets.

15. Other liabilities

	30.6.2011	31.12.2010
Accrued expenses	1.453	1.596
VAT	561	512
Liabilities held for sale	31	484
Other	341	287
Other liabilities total	2.386	2.879

16. Legal proceedings

The company has signed an agreement with Seamobile Europe that includes a payment of € 4.5 million (ISK 750 million) from Síminn to Seamobile Europe, The payment is considerable lower than the International Chamber of Commerce Arbitration Tribunal in Paris had concluded. In October 2010 the arbitration tribunal concluded that Síminn was to pay Seamobile Europe approximately €7.7 million (ISK 1.183 million). Seamobile Europe‘s claim was based on an agreement that Landssími Íslands hf. entered into with the company Geolink in 2003 concerning telecommunications services in international waters.

In the beginning of 2011 the District Court of Reykjavík confirmed that the arbitration tribunal decision was enforceable in Iceland.

The agreement concludes the presumably prolonged and sumptuous dispute between the two companies.

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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 signed agreement to sell all of its shares in Tæknivörur ehf. The proceeds will be received in cash.

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 26 August 2011.