Consolidated Financial Statements

2007

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

Contents

Endorsement by the Board of Directors and CEO

Skipti´s net profit for the year amounted to ISK 3,082 million. According to the Balance Statement the Company´s assets amount to ISK 97,641 million, the year´s end book value of equity is ISK 32,757 million and the Company´s equity ratio is 33,5%. As regards changes in the equity of the Company, the Board refers to the Financial Statements.

At year-end, shareholders in Skipti hf. hf. numbered 1,036, compared to 1,053 at the beginning of the year. Two shareholders owned more than 10% of the shares in the Company at year-end: Exista B.V., with 43.7%, and Kaupþing banki hf., with 27.8%.

On Símin´s General meeting on March 15th 2007 it was approved to de-merger Síminn to Skipti, Mila, Fasteignafélagið Jörfi and Síminn where Skipti became the parent company. Comparative numbers in the Financial Statements are therefore based on Síminn´s Financial Statements for 2006.

It is the opinion of the Board of Directors and the CEO that these Financial Statements present all the information necessary to show the position of the Company at year-end, the operating results for the year and the financial developments during the year 2007. The Board of Directors and CEO hereby confirm the Financial Statements for the year 2007 with their signatures.

Reykjavík, January 31 2008

Board of Directors:

Lýður Guðmundsson, chairman

Rannveig Rist

Panikos Katsouris

Erlendur Hjaltason

Sigurgeir Brynjar Kristgeirsson

CEO:

Brynjólfur Bjarnason

Independent Auditor's Report

To the Board of Directors and shareholders of Skipti hf.

Report on the Financial Statements

We have audited the accompanying financial statements of Skipti hf., which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Skipti hf. as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Reykjavík, 31 January 2008.

Deloitte hf.

Hilmar A. Alfreðsson
State Authorized Public Accountant

Consolidated Income Statement
for the year 2007

	Notes	2007	2006 *
Net sales		32.719.079	25.030.127
Cost of sales		(18.972.885)	(13.671.369)
Gross profit		13.746.194	11.358.758
Other operating income		638.690	265.013
Operating expenses		(9.093.817)	(7.018.256)
Operating profit		5.291.067	4.605.515
Finance costs	8	(3.274.070)	(8.936.267)
Share of loss in associates		(26.003)	(6.435)
Profit (loss) before tax		1.990.994	(4.337.187)
Income tax		(304.933)	777.461
Profit (loss) for the year from continuing operations		1.686.061	(3.559.726)
Discontinued operation			
Profit for the year from discontinued operations	23	1.395.755	0
Profit (loss) for the year		3.081.816	(3.559.726)
Attributable to:			
Equity holders of the parent		3.045.801	(3.581.065)
Minority interest		36.015	21.339
		3.081.816	(3.559.726)
Earnings per share:			
Earnings (loss) per share	10	0,43	(0,12)

* Comparative figures for the year 2006 are from Siminn hf. Consolidated Financial Statements

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Consolidated Balance Sheet at 31 December 2007

	Notes	31.12.2007	31.12.2006
Assets			
Non-current assets			
Property,plant and equipment	11	15.556.136	17.842.927
Intangible assets	13	66.765.472	61.155.750
Investments in associated companies	15	471.421	528.807
Investments in other companies	16	1.972.961	1.421.977
Other investment		279.597	150.000
Non-current assets		85.045.587	81.099.461
Current assets			
Inventories	17	1.133.581	841.939
Accounts receivables		5.313.812	5.755.229
Other receivables		879.034	156.729
Cash and cash equivalents		5.269.137	1.053.380
Current assets		12.595.564	7.807.277
Assets		97.641.151	88.906.738
Equity and Liabilities			
Equity			
Share capital	18	7.365.146	7.000.000
Reserves		1.383.522	0
Translation reserves		(366.063)	0
Retained earnings		24.005.049	21.113.259
Equity holders of the parent		32.387.654	28.113.259
Minority interest		368.900	1.333.614
Equity		32.756.554	29.446.873
Non-current liabilities			
Borrowings	19	50.435.129	50.747.020
Deferred tax liabilities		304.731	156.224
Non-current liabilities		50.739.860	50.903.244
Current liabilities			
Bank loans		2.051.484	185.181
Accounts payables		4.674.284	2.246.766
Current maturities of borrowings	20	2.785.350	3.430.293
Other current liabilities		4.633.619	2.694.381
Current liabilities		14.144.737	8.556.621
Total liabilities		64.884.597	59.459.865
Total equity and liabilities		97.641.151	88.906.738

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Consolidated Cash Flow Statement
for the year 2007

	Notes	2007	2006*
Cash flow from operating activities			
Operating profit		5.291.067	4.605.515
Operational items not affecting cash flow:			
Depreciation and amortization		4.202.025	3.837.204
Gain on sale of fixed assets		(2.337)	(17.466)
Changes in current assets and liabilities		(476.278)	229.027
Cash generated by operation		9.014.477	8.654.280
Interest income received during the year		426.591	238.663
Payments of taxes during the period		0	(197.485)
Interest expenses paid during the period		(2.550.553)	(1.989.148)
Net cash from operating activities		6.890.515	6.706.310
Investing activities			
Investment in property, plant and equipment		(3.490.094)	(2.117.310)
Investment in intangible assets		(358.567)	(453.304)
Proceeds from sale of property, plant and equipment		42.510	56.062
Changes in other investments		41.909	23.291
Changes in investment in other companies		(474.762)	(2.692.121)
Investing activities		(4.239.004)	(5.183.382)
Financing activities			
Dividend paid		0	(630.907)
New borrowings		3.085.347	1.892.176
Payments of non current liabilities		(3.262.920)	(2.444.183)
Bank loans, increase		1.791.584	324.033
Buyback of ordinary shares		(3.108)	(232.834)
Financing activities		1.610.903	(1.091.715)
Increase in cash and cash equvialents		4.262.414	431.213
Effects of exchange rate changes on the balance of cash		(46.657)	157.297
Cash and cash equivialents at the beginning of year		1.053.380	464.870
Cash and cash equivialents at the end of the year		5.269.137	1.053.380

* Comparative figures for the year 2006 are from Siminn hf. Consolidated Financial Statement

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Consolidated Statement of Changes in Equity
for the year 2007

	Share capital	Reserves	Translation reserves	Retained earnings	Equity holders of the parent	Minority interest	Total equity
Total equity 1.1.2007	7.000.000	0	0	21.113.259	28.113.259	1.333.614	29.446.873
Profit for the year				3.045.801	3.045.801	36.015	3.081.816
Change in minority interest					0	(1.000.729)	(1.000.729)
Translation reserve			(366.063)		(366.063)		(366.063)
Recognition of share based payments		65.200			65.200		65.200
New capital issued	368.421	1.164.849			1.533.270		1.533.270
Provision for statutory reserve		154.011		(154.011)	0		0
Buyback of ordinary shares	(3.275)	(538)			(3.813)		(3.813)
Total equity 31.12.2007	7.365.146	1.383.522	(366.063)	24.005.049	32.387.654	368.900	32.756.554

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1. General information

Skipti hf. is a limited liability company incorporated in Iceland.

2. Adoption of new and revised Standards

2.1 Standards and Interpretations effective in the current period

In the current year, the Group has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 40).

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following Standards and interpretations were in issue but not effective:

	Effective:
- IFRS 8, Operating Segments	1 January 2009
- IAS 23 (Revised) Borrowing costs	1 January 2009

At the date of authorisation of these financial statements, the following Interpretations were in issue but not effective:

- IFRIC 11, IFRS 2: Group and Treasury Share Transactions	1 March 2007
- IFRIC 12, Service Concession Arrangements	1 January 2008
- IFRIC 13, Customer Loyalty Programmes	1 July 2008
- IFRIC 14, IAS 19 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	1 January 2008

The directors anticipate that all of the above Interpretations will be adopted in the Group's financial statements for the period commencing 1 January 2008 and that the adoption of those Interpretations will have no material impact on the financial statements.

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3. Significant Accounting Policies

3.1 Statement of compliance

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

3.2 Basis of preparation

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

3.3 Basis of consolidation

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Company.
All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

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

3.4 Business combinations

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

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

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

3.5 Investments in associates

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

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

Any excess of the cost of acquisition over the Group'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 Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

3.6 Goodwill

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

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

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

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

3.7 Non-current assets held for sale

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

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

3.8 Revenue recognition

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

3.9 Leasing

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

3.9.1 The Group as lessor

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

3.9.2 The Group as lessee

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

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

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

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

3.10 Foreign currencies

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

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

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

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

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

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Icelandic krona using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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

3.11 Borrowing costs

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

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

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

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

3.12 Government grants

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

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

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

3.13 Share-based payments

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

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

3.14 Taxation

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

3.14.1 Current tax

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

3.14.2 Deferred tax

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

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

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

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

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefit embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other cost is recognized in profit or loss as an expense as incurred.
Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful life is as follows:

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

The residual value is reassessed annually.

3.16 Intangible assets

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

3.16.2 Internally-generated intangible assets – research and development expenditure
Expenditure on research activities and development is recognised as an expense in the period in which it is incurred.

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

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

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

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

3.16.3 Intangible assets acquired in a business combination

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

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

3.17 Impairment of tangible and intangible assets excluding goodwill

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

3.18 Inventories

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

3.19 Financial assets

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

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

3.19.1 Effective interest method

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

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

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

A financial asset is classified as held for trading if:

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

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

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

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

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

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

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

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

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

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

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

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

3.19.6 Impairment of financial assets

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

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

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

• significant financial difficulty of the issuer or counterparty; or

• default or delinquency in interest or principal payments; or

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

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

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

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

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

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

3.19.7 Derecognition of financial assets

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

3.20 Financial liabilities and equity instruments issued by the Group

3.20.1 Classification as debt or equity

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

3.20.2 Equity instruments

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

3.20.3 Compound instruments

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

3.20.4 Financial liabilities

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

FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

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

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

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

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

3.20.5 Other financial liabilities

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

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

3.20.6 Derecognition of financial liabilities

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

3.21 Derivative financial instruments

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

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

3.21.1 Embedded derivatives

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

3.21.2 Hedge accounting

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

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

3.21.3 Fair value hedges

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

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

3.21.4 Cash flow hedges

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

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.
Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

3.21.5 Hedges of net investments in foreign operations

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

5. Segment Reporting

Geographical segments

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

Business segments

	Telecommuni-cations	Information technology	Media and entert.	Total
Net sales	24.337.295	6.390.764	2.629.710	33.357.769
Aquisition of segment assets	3.706.024	134.841	7.796	3.848.661
Assets	15.149.965	2.502.728	650.243	18.302.936
Unallocated assets				79.338.215
Consolidated total assets				97.641.151

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6. Financial risk

The Group´s activities mean that its operations, assets, debt and equity are exposed to variety of financial risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group´s financial risks are managed centrally by its Treasury function on the basis of written principles. A corporate finance committee led by the CEO of the Group meets monthly to review the its borrowing portfolio and currency risk.

Interest rate risk:

The Group´s borrowing consists of listed bonds issued in ISK at a fixed rate, foreign currency loans with floating interrest rates and other borrowings in ISK with floating interest rate. The Group uses interest rate swaps to fix a small part of the floating interest rate risk in foreign currency borrowings until year end 2009.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 or 100 basis point increase or decrease represents management´s assessment of the reasonably possible change in interest rates. The analysis assume that all other variables, than interest rates, are held constant. A positive number below indicates an increase in profit and equity but a negative number would have an opposite impact.

	2007	
	50 bps	100 bps
Profit or loss	(155.518)	(311.037)
Equity	(155.518)	(311.037)

Foreign exchange risk:

The Group is primarily exposed to EUR, USD, CHF, GBP, JPY, SEK and DKK. The largest effect is through the Group's borrowings which to a large extent is in foreign currencies, although closely correlated to the Icelandic currency basket. To a lesser extent, foreign exchange rates affect revenues and operational costs related to international telecommunication and IT services, as well as operations in foreign subsidiaries. A considerable proportion of the Group's capital expenditure is in foreign currencies. The Group hedges a part of its foreign exchange exposure. The level of hedging varies upon the economical outlook and interest rate difference at any given time. Currently more than 70% of borrowing in foreign currencies, for domestic purposes, has been transferred over to ISK debt. Foreign currency risk of borrowing for the purpose of funding foreign acquisitions is offset by the asset acquired. The Group's position is analysed monthly by a corporate finance committee steered by the CEO of Group.

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

	Year end exchange rate		Year end
Currency	Buy	Sell	volatility
DKK	12,19	12,27	12,55%
EUR	90,95	91,45	12,54%
GPB	124,0	124,6	12,36%
JPY	0,552	0,555	19,77%
CHF	54,96	55,26	14,83%
USD	61,85	62,15	14,13%
CAD	62,99	63,35	13,24%
SEK	9,657	9,713	12,74%

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The table below shows the Groups exposure to foreign currency risk.

31.12.2007	Foreign currency risk exposure Assets	Liabilities	Net position
EUR	10.063.191	9.002.446	1.060.745
GPB	2.450.577	3.113.596	(663.019)
JPY	0	4.075.903	(4.075.903)
CHF	3.759.857	8.542.301	(4.782.444)
USD	7.692.608	5.894.133	1.798.475
CAD	0	1.508.874	(1.508.874)
DKK	800.000	0	800.000
SEK	737.000	0	737.000

Sensitivity analysis

The following table details the Group´s sensitivity to a 5 or 10 percent increase or decrease in the relevant foreign currency rate. It represents management´s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5 or 10% change in foreign currency rates. The analysis assumes that all other variables, than foreign currency rates, are held constant. A positive number below indicates an increase in profit and equity but a negative number would have an opposite impact.

	Profit or loss		Equity	
	5%	10%	5%	10%
EUR	43.491	86.981	43.491	86.981
GPB	(27.184)	(54.368)	(27.184)	(54.368)
JPY	(167.112)	(334.224)	(167.112)	(334.224)
CHF	(196.080)	(392.160)	(196.080)	(392.160)
USD	73.737	147.475	73.737	147.475
CAD	(61.864)	(123.728)	(61.864)	(123.728)
DKK	32.800	65.600	32.800	65.600
SEK	30.217	60.434	30.217	60.434

Credit risk:

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group´s exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date in addition to certain financial guarantees. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies

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

	Maximum credit risk 31.12.2007
Accounts receivables	5.313.812
Liquid funds	5.269.137
Other financial assets	1.158.631
Financial guarantees	939.930
	12.681.598

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Liquidity risk:

The Group has considerable investments in long-term assets. The borrowing is therefore structured with a high proportion of long-term debt with moderate repayments of facilities and un-drawn credit lines is showed in the table below. The following table shows the Group´s remaining expected maturity for its financial liabilities and financial assets. The table has been drawn up based on the undiscounted cash flow of financial liabilities based on the earliest date on wich the Group can be required to pay. The weighted average effective fixed interest rate is 6,00% and the weighted average effective floating interest rate is 6,99%. The Group has facilities and un-drawn credit lines amounting to ISK 9,8 billion.

	2008	2009	2010	Later	Total
Non-interest rate					
Fixed interest rate	24.856	24.856	99.425	15.850.542	15.999.679
Floating interest rate	4.841.305	2.755.696	2.755.696	30.181.176	40.533.873
Other	8.046.314				8.046.314
	12.912.475	2.780.552	2.855.121	46.031.718	64.579.866
Interest bearing assets	21.813	5.321	5.321	247.142	279.597
Non interest bearing assets	11.461.983				11.461.983
	11.483.796	5.321	5.321	247.142	11.741.580

7. Personnel

Average number of employees, adjusted for full-time employment	1.748
Number og employees at year-end	1.896

Salaries and related expenses are specified as follows:

Salaries	10.882.755
Related expenses	2.013.199
	12.895.954

Salaries paid to the Company's Board of Directors, CEO and other senior Directors of the Company amounted to ISK 435 million. The Group has entered into share option agreements with 16 employees. The 16 employees are entitled by these share purchase agreements to purchase shares in Skipti with an aggregate market value of ISK 241 million at a discount of ISK 109 million. The number of shares will be determined based on the offer price in the public offering. The options can be exercised in the period of June 2008 until September 2008 and the exercise price will be determined by the offer price in the public offering due in March 2008. The fair value of share options are mesured using a Black-Scholes model. Total regnonised espenses for the year arising from share based payment transactions amounted to ISK 63 million.

8. Financial income and expenses

Interest earned	410.181
Income from investments	687.765
Interest and indexation expenses	(4.443.187)
Exchange gains (loss)	71.171
Finance cost total	(3.274.070)

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9. Income taxes

Income tax recognised in profit or loss

Tax expense comprises:	
Current tax expense	360.040
Deferred tax expense	251.278
	611.318

Attributible to:	
Continuing operations	304.933
Discontinued operations	306.385
	611.318

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

Profit from continuing operations	1.990.994
Profit from discontinued operations	1.702.140
Profit from operations	3.693.134

Income tax using the corporation tax rate	18,0%	664.764
Dividend	-0,2%	(7.076)
Effects of different tax rates of subsidiaries	0,7%	25.662
Other changes	-2,0%	(72.032)
Effective tax rate	16,5%	611.318

10. Earnings per share

Basic and diluted earnings per share

From continuing operations	0,19
From discontinuing operations	0,24
Total basic and diluted earnings per share	0,43

10.1 Basic earnings per share

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

Profit for the year attributable to equity holders of the parent	3.045.801
Earnings used in the calculation of total basic earnings per share	3.045.801
Profit for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations	1.686.061
Earnings used in the calculation of basic earnings per share from discontinuing operations	1.359.740
Weighted average number of ordinary shares for the purposes of basic earnings per share	7.212.022

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11. Property, plant and equipment

	Telecommuni-cations equipment	Buildings and land	Machinery and equipment	
Cost				
Total value 1.1.2007	37.759.150	361.717	1.203.383	39.324.250
Additions during the year	3.257.861	1.576.299	871.442	5.705.602
Additions through business combinations	0	87.756	155.815	243.571
Reclassified			(20.652)	(20.652)
Net foreign currency exchange differences	0	0	(34.119)	(34.119)
Sales and disposals during the year	(98)	(14.032)	(74.612)	(88.742)
	41.016.913	2.011.740	2.101.257	45.129.910
Depreciation				
Total value 1.1.2007	(25.123.972)	(264.071)	(890.176)	(26.278.219)
Additions through business combinations	0	(946)	(1.313)	(2.259)
Reclassified			1.092	1.092
Depreciation during the year	(2.973.982)	(98.018)	(250.907)	(3.322.907)
Sales and disposals during the year	0	10.961	17.498	28.459
Net foreign currency exchange differences			60	60
	(28.097.954)	(352.074)	(1.123.746)	(29.573.774)
Net book value 31.12.2007	12.918.959	1.659.666	977.511	15.556.136

The official real estate valuation on the Company's buildings and land amounted to ISK 830 million at year-end 2007 and the insurance value amounted to ISK 1,496 million at the same time. The insurance value of machinery and equipment amounted to ISK 13,014 million.

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

	2007
Cost of sales	3.043.805
Operating expenses	1.158.220
Total	4.202.025

13. Intangible assets

	Goodwill	Software	Contractual-rights	Total
Cost				
Total value 1.1.2007	60.461.636	3.674.625	69.443	64.205.704
Additions during the year	4.538.343	416.741		4.955.084
Additions through business combinations	1.675.037	0		1.675.037
Reclassified		20.652		20.652
Net foreign currency exchange differences	(87.253)	0		(87.253)
Sales and disposals during the year		(132.443)		(132.443)
	66.587.763	3.979.575	69.443	70.636.781
Amortisation				
Total value 1.1.2007		(3.089.245)		(3.089.245)
Additions through business combinations		0		0
Reclassefied		(17.498)		(17.498)
Amortisation during the year	(464.079)	(345.596)	(69.443)	(879.118)
Net foreign currency exchange differences				0
Sales and disposals during the year		114.552		114.552
	(464.079)	(3.337.787)	(69.443)	(3.871.309)
Net book value 31.12.2007	66.123.684	641.788	0	66.765.472

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13.1 Annual test for impairment

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

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

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

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 test of goodwill did not result in impairment loss.

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

	2007
Telecommunication	62.145.210
Information technology	3.978.474
Total goodwill	66.123.684

14. Subsidiaries

Aerofone Ltd.	100,0%
Businessphone Group A/S	100,0%
Gaukshöfði ehf.	100,0%
Míla ehf.	100,0%
On-waves S.ä.r.l.	100,0%
On-waves ehf.	85,0%
Landssíminn ehf.	100,0%
Radíómiðun ehf.	75,0%
Sensa ehf.	100,0%
Sensa DK Aps	100,0%
Siminn DK Aps	100,0%
Skipti DK Aps	100,0%
Siminn UK Ltd.	100,0%
Sirius IT	92,2%
Síminn hf.	100,0%
Skjá miðlar ehf.	100,0%
Skjárinn ehf.	100,0%
Stefja hf.	62,7%
Ventelo A/S	100,0%
Tæknivörur ehf.	53,5%
Já Upplýsingaveitur ehf.	100,0%

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15. Associates

The Group's share in the operating result of its associated companies was a loss of ISK 26 million. The share in net equity amounted to ISK 471 million at the end of the year.

	Ownership %	Nominal value	Book value
Eignarhaldsfélagið Farice ehf.	13,4%	142.841	301.295
Farsímagreiðslur ehf.	40,5%	28.350	15.028
Hið íslenska númeraflutningsfélag ehf.	50,0%	4.000	3.586
Nordisk Mobil Ísland ehf.	50,0%	250	250
Titan upplýsingatækni ehf	20,1%	10.000	18.490
Titan invest ehf.	50,0%	250	7.500
Þræðir ehf.	46,7%	234	103.421
Trackwell ADS	50,0%	-	8.651
Bolignet A/S	33,3%	-	13.200
Total			471.421

16. Investment

At the end of the year the Company owned shares in four foreign and ten domestic companies where the ownership was less than 20%. Ownership in Carrera Ltd. amounted to ISK 1.195 million.

17. Inventories

	2007
Finished goods	730.663
Work in progress	134.321
TV programs for screening	268.597
Inventory total	1.133.581

18. Share capital

Share capital as at 31 December 2007 amounted to ISK 7.368 million. Own shares amounted to ISK 3 million.

19. Non-current liabilities:

Borrowings are specified as follows by currency denominations:

Loans in USD	5.894.133
Loans in EUR	9.002.446
Loans in GBP	3.113.596
Loans in JPY	4.075.903
Loans in CHF	8.542.300
Loans in DKK	4.811.009
Loans in ISK	17.781.092
Current maturities of borrowings	(2.785.350)
	50.435.129

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20. Annual maturities of borrowings are specified as follows:

In the year 2008	2.785.350
In the year 2009	2.752.363
In the year 2010	2.869.808
In the year 2011	3.166.230
In the year 2012	2.900.993
Subsequent payments	38.745.735
Total borrowings, including current maturities	53.220.479

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

Deferred tax at the beginning of the year	156.224
Acquistions/disposals	(102.771)
Income tax posted to the income statement	304.933
Income tax of discontinued operations	306.385
Income tax payable next year	(360.040)
Deferred tax liability at the end of the year	304.731

The deferred tax liability is allocated as follows:

Property and equipment	34.321
Accounts receivable	(8.637)
Inventories	856
Other items	278.191

22. Aquisitions of subsidiaries

Analysis of assets and liabilities acquired:

	Aerofone Ltd.	Business-Phone A/S	Sensa ehf.	Ventelo
Tangible assets	3.452	11.068	93.912	118.003
Intangible assets	334.515	63.318	0	1.277.204
Loans and accounts receivable	60.181	92.631	161.581	419.471
Financial assets	5.245	3.989	38.314	12.539
Other assets	31.562	0	18.526	4.515
Cash	75.360	4.988	70.645	162.590
Total assets	510.315	175.994	382.978	1.994.322
Deferred taxation	4.373	0	(2.711)	1.662
Borrowings	(63.040)	0	(56.165)	(76.426)
Other liabilities	(254.709)	(119.259)	(135.712)	(621.148)
Total liabilities	(313.376)	(119.259)	(194.588)	(697.574)
Net assets	196.939	56.735	188.390	1.296.748
Goodwill	1.137.377	535.710	871.905	1.581.112
	1.334.316	592.445	1.060.295	2.864.183
Satisfied by:				
Paid in cash	1.260.803	563.912	215.000	2.864.183
Shares in Skipti hf., not issued	0	0	840.000	0
Direct costs relating to acquisition	73.513	28.533	5.295	13.677
	1.334.316	592.445	1.060.295	2.877.860

As is permitted by IFRS 3, Business combinations, the assessment of the fair value of the net assets is provisional up to one year from the date of acquisition. If acquisitions had been completed on the first day of the financial year the company´s operating profit for the period would have been 232 millions kr. higher

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During the year Skipti sold 46,5 % of its shares in Tæknivörur ehf. The sale had a limited effect on Skipti income statement and balance sheet.

23. Discontinued operations

In September the Group sold its entire share in the wholy owned subsidiary Fasteignafélagið Jörfi ehf. As main part of revenues and cost where transactions within the group no breakdown of operation is shown. The main reason for the sale was that real estate operation are not part of the Group´s objectives, so it was decided to divest the Group´s real estate assets and rent those that were necessary on long-term leases.

Details of the disposal net are as follows:

<u>Non-current assets</u>	
Property, plant and equipment	2.817.574
<u>Non-current liabilities</u>	
Deferred tax liabilities	(101.109)
Net assets disposed of	2.716.465
Profit on disposal net of taxes	1.702.140
Taxes	(306.385)
Net gain on disposal	1.395.755

Mortgages and guarantees

24. Assets of the Group are mortgaged to guarantee loans, which amount to ISK 32,509 m.kr. at the end of the year 2007.

25. The Group has guaranteed loans for Farice hf. that are nominated in foreign currencies and amounted to ISK 939 million at the end of the year. The Group's commitments on the lease of a submarine telecommunications cable amount to ISK 107 million annually until 2012. The Group's commitments on account of housing leases amount to ISK 208 million annually until 2018.

26. Related party transactions

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

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 statement were approved by the board of directors and authorised for issue on the 31 January 2008.

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