Condensed Interim Consolidated Financial Statement

30 June 2007

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

Contents

Endorsement by the Board of Directors and the CEO

The Condensed Interim Consolidated Financial Statement for Skipti hf. for the period 1 January to 30 June 2007 are prepared in accordance with International Financial Reporting Standards (IFRS) for Interim Financial Statement (IAS 34) as a adopted by the EU. The Interim Consolidated Financial Statement comprise the Interim Financial Statement for Skipti and its subsidiaries.

On Siminn´s General meeting on March 15th. 2007 it was approved to de-merge Siminn to Skipti, Míla, Fasteignafélagið Jörfi and Símann where Skipti became the parent company. Comparative numbers in the Interim Consolidated Statements are therefore based on Siminn´s Interim Consolidated Statements.

The Board of Directors and the CEO of Skipti hf. are of the opinion that the Interim Consolidated Statements for the six months ended 30 June 2007 contain all the information necessary to form a clear picture of the company´s standing at 30 June, the period´s operating results and the period´s financial development.

The Board of Directors and the CEO of Skipti hf. hereby confirm the Interim Consolidated Financial Statements for the six months ended 30 June 2007 with their signatures.

Reykjavík, 26 July 2007.

Board of Directors:

Lýður Guðmundsson, chairman

Rannveig Rist

Panikos Katsouris

Erlendur Hjaltason

Sigurgeir Brynjar Kristgeirsson

CEO:

Brynjólfur Bjarnason

Report on Review of Interim Financial Information

To the Board of Directors and shareholders of Skipti hf.

Introduction

We have reviewed the accompanying balance sheet of Skipti hf. as of June 30, 2007 and the related statements of income, changes in equity and 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 by 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, 2007, 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.

Reykjavík, 26 July 2007.

Deloitte hf.

Hilmar A. Alfreðsson
State Authorized Public Accountant

Consolidated Interim Income Statement
for the period 1 January - 30 June 2007

	Notes	2007	2006 *
Net sales		15.513.559	11.754.069
Cost of sales		(8.566.461)	(6.442.680)
Gross profit		6.947.098	5.311.389
Other operating income		180.147	144.026
Operating expenses		(4.811.710)	(3.489.026)
Operating profit		2.315.535	1.966.389
Financial income (expenses)	2	519.334	(9.771.675)
Share of profit (loss) in associates		(1.865)	(11.161)
Profit (loss) before tax		2.833.004	(7.816.447)
Income tax		(387.983)	1.409.026
Profit (loss) for the period		2.445.021	(6.407.421)
Attributable to:			
Equity holders of the parent		2.440.877	(6.409.506)
Minority interest		4.144	2.085
		2.445.021	(6.407.421)
Earnings per share:			
Earnings (loss) per share	3	0,35	(0,21)

* Comparative figures for the year 2006 are from Siminn hf. interim statement

Skipti hf. - Condensed Interim Consolidated Financial Statement 2007 5 All amounts are in thousands of Icelandic kronas

Consolidated balance sheet at 30 June 2007

	Notes	30.6.2007	31.12.2006
Assets			
Non-current assets			
Property, plant and equipment		18.305.775	17.842.927
Intangible assets		62.975.939	61.155.750
Investments in associated companies		509.098	528.807
Investments in other companies		1.672.961	1.421.977
Other investment		303.494	150.000
Non-current assets		83.767.267	81.099.461
Current assets			
Inventories		883.207	841.939
Accounts receivable		5.541.697	5.755.229
Other receivables		800.906	156.729
Cash and cash equivalents		1.371.786	1.053.380
Current assets		8.597.596	7.807.277
Assets		92.364.863	88.906.738
Equity and Liabilities			
Equity			
Share capital		7.359.562	7.000.000
Reserves		1.149.741	0
Translation reserves		(119.116)	0
Retained earnings		23.554.136	21.113.259
Equity holders of the parent		31.944.323	28.113.259
Minority interest		163.502	1.333.614
Equity		32.107.825	29.446.873
Non-current liabilities			
Borrowings		45.879.137	50.747.020
Deferred tax liabilities		436.737	156.224
Non-current liabilities		46.315.874	50.903.244
Current liabilities			
Bank loans		2.411.660	185.181
Accounts payable		3.761.193	2.246.766
Current maturities of borrowings		3.004.368	3.430.293
Other current liabilities		4.763.943	2.694.381
Current liabilities		13.941.164	8.556.621
Total liabilities		60.257.038	59.459.865
Total equity and liabilities		92.364.863	88.906.738

Skipti hf. - Condensed Interim Consolidated Financial Statement 2007 6 All amounts are in thousands of Icelandic kronas

Consolidated Cash Flow Statement
for the period 1 January - 30 June 2007

	Notes	2007	2006*
Cash flow from operating activities			
Operating profit		2.315.535	1.966.389
Operational items not affecting cash flow:			
Depreciation and amortization		2.001.042	2.002.932
Gain on sale of fixed assets		(13.161)	(15.127)
Changes in current assets and liabilities		26.367	307.721
Cash generated by operation		4.329.783	4.261.915
Interest income received during the year		218.539	106.447
Payments of taxes during the period		0	(475.978)
Interest expenses paid during the period		(1.556.679)	(1.154.049)
Net cash from operating activities		2.991.643	2.738.335
Investing activities			
Investment in property, plant and equipment		(2.052.083)	(894.496)
Investment in intangible assets		(38.230)	(88.994)
Proceeds from sale of property, plant and equipment		24.080	40.784
Changes in other investments		(23.507)	23.291
Changes in investment in other companies		(1.323.619)	158.222
Investing activities		(3.413.359)	(761.193)
Financing activities			
Dividend paid		0	(630.907)
New loans raised		105.323	212.869
Repayments of borrowings		(1.518.172)	(941.196)
Bank loans, increase		2.226.479	0
Repurchase of own shares		9.874	(224.847)
Financing activities		823.504	(1.584.081)
Increase in cash and cash equivialents		401.788	393.061
Effects of exchange rate changes on the balance of cash		(83.382)	0
Cash and cash equivialents at the beginning of year		1.053.380	464.870
Cash and cash equivialents at the end of the period		1.371.786	857.931

* Comparative figures for the year 2006 are from Siminn hf. interim statement

Skipti hf. - Condensed Interim Consolidated Financial Statement 2007 7 All amounts are in thousands of Icelandic kronas

Consolidated Statement of Changes in Equity
for the period 1 January to 30 June 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 period				2.440.877	2.440.877	4.144	2.445.021
Change in minority interest					0	(1.174.256)	(1.174.256)
Translation reserve			(119.116)		(119.116)		(119.116)
Changes in share capital	359.562	1.149.741			1.509.303		1.509.303
Total equity 30.6.2007	7.359.562	1.149.741	(119.116)	23.554.136	31.944.323	163.502	32.107.825

Skipti hf. - Condensed Interim Consolidated Financial Statement 2007 8 All amounts are in thousands of Icelandic kronas

Notes

General information

The condensed consolidated financial statements of Skipti hf. for the period 1 January - 30 June 2007 comprise the consolidated financial statements for Skipti and its subsidiaries.

Significant accounting principles

(a) ***Statement of compliance***

The condensed Interim Consolidated Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the EU.

The condensed Interim Consolidated Financial Statements have been prepared under the historical cost basis, except for revaluation of certain properties and financial instruments. The interim financial statements are presented in thousands Icelandic kronur (ISK)

The following are new and updated standards and interpretations that are effective for annual financial statements 2007:

- IAS 32, *Financial instruments, presentation*
- IFRS 7, *Financial instruments, disclosures*
- 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*
- IFRIC 10, *Interim Financial Reporting and Impairment*

The adoption of those new and updated standards and interpretations has not resulted in changes of accounting policies applied in recognition and measurement.

Adoption of IFRS 7 in annual financial statements 2007 will result in changes and addition to information disclosed in notes regarding financial instruments. IFRS 7 is not applicable for interim reports.

(b) ***Basis of preparation***

The 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.

Reporting consolidated statements in accordance with International Financial Reporting Standards (IFRS) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period and future periods.

(c) ***Basis of consolidation***

i) *Subsidiaries*
Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of the entities so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

ii) *Associates*
Associates are those entities for which the Group has significant influence, but not control, over the financial and operating policies. The Consolidated Financial Statements include the Group's share of the total recognized gains and losses of associates, from the date that significant influence commences until the date that significant influence ceases. If the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

iii) *Transactions eliminated on consolidation*
Intragroup balances, businesses and unrealized gains arising from intragroup transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealized losses are eliminated in the same way as unrealized gains, but to the extent that there is no evidence of impairment.

iv) The accounting policies have been applied consistently throughout the Group.

(d) ***Foreign currency***

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Currency Units, 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 on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on 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 arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity. In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Currency Units using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) 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 translation 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.

(e) ***Derivative financial instruments***

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk. Deriviative financial instruments are recognized initially at cost. Subsequent to initial recognition, deriviative financial instruments are stated at fair value and the gain or loss is recognized in profit or loss. Gain or loss on hedging instruments is recognized in profit or loss.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

(f) ***Hedging***

When a derivative financial instrument is designed as a hedge of a recognized asset or liability, hedge accounting is not applied. Gain or loss on the hedging instrument is recognized in profit or loss.

(g) ***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:

	Useful life
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.

(h) ***Intangible assets***

i) Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the subsidiary 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 the Group's cash-generating units. 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.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortized but is tested annually for impairment.

ii) Other intangible assets

Intangible assets other than goodwill acquired by the Group are stated at cost less accumulated amortization. Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives as follows:

Software	3-7 years
Contractual rights	3 years
Other	3 years

(i) ***Investment***

Investment in other Companies is stated at fair value when available, with any gain or loss recognized directly in equity. When these investment are sold, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. When fair value is not available investment is stated at cost.

Bonds are recorded at cost less any impairment losses. Interest income on bonds is recognized in profit or loss, using the effective interest method.

(j) ***Trade and other receivables***

Trade and other receivables are stated at their cost less impairment losses.

Current maturities of bonds are included in other receivables in the Balance Sheet.

(k) ***Inventories***

Inventories in the Balance Sheet include goods for sale, supplies, work in process and material to be viewed in television. Goods for sale are stated at lower of cost and net realizable value. Net realizable value is estimated selling price in the ordinary course of business, less the estimated selling expenses. Supplies are stated at last purchase price. Material to be viewed in television is stated at cost.

(l) ***Cash and cash equivalents***

Cash and cash equivalents consist of cash, bank deposits and marketable securities. Marketable securities are short-term bonds which may or may not be listed and can be sold within three months. Marketable securities are valued at their fair value.

(m) ***Impairment***

The carrying amounts of the Group's assets, other than inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

i) Calculation of recoverable amount
The recoverable amount of investments in securities and other receivables is calculated at present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

ii) Reversals of impairment
An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

(n) ***Interest-bearing borrowings***

Interest-bearing debts are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in profit or loss over the period of the debt on an effective interest basis.

(o) ***Provisions***

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(p) ***Account payable***

Account payable are recognized at cost.

(q) ***Revenue***

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.

Notes

(r) ***Expenses***

i) Cost of sales and operating expenses

Cost of sales according to the income statement consist of cost of operating telecommunication systems, direct television broadcasting expenses and cost of goods sold, including related labor cost and related depreciation on property, plant and equipments.

Operating expenses according to the income statement consist of selling expenses, customer services, administration, impairment losses on receivables and other costs.

ii) Operating lease payments

Payments under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

iii) Net financing cost

Net financing cost comprises interest on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange rate gains and losses on hedging instruments that are recognized in profit or loss.

Interest income is recognized in profit or loss as it accrues, using the effective interest method. Dividend income is recognized in profit or loss when dividend is announced.

(s) ***Income Tax***

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and differences relating to investments in subsidiaries to the extent that the temporary differences will probably not reverse in the foreseeable future.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

(t) ***Segment reporting***

A segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments. Pricing of sale of goods and services between segments is decided by the Company on the basis of arms length transactions.

Notes

Segment Reporting

1. The Group's operation by segments is specified as follows:

	Domestic business	International business	Total
Net sales	12.424.337	3.089.222	15.513.559
Cost of sales	(6.244.810)	(2.321.651)	(8.566.461)
Gross profit	6.179.527	767.571	6.947.098
Other operating income	180.147	0	180.147
Operating expense	(4.216.633)	(595.077)	(4.811.710)
Operating profit	2.143.041	172.494	2.315.535

Financial income and expenses

2. Financial income and expenses specify as follows:

	2007	2006
Interest earned	165.665	118.818
Income from investments	337.765	605.700
Interest and indexation expenses	(1.957.659)	(2.216.677)
Exchange (loss) gains	1.973.563	(8.279.516)
Total financial income and expenses	519.334	(9.771.675)

Earnings per share

3. Basic earnings per share is compared with profit for the period attributable to equity holders of the parent and weighted average number of ordinary shares of the period and shows the earnings per share.

Basic earnings per share:	2007 1.1. - 30.6.
Profit for the period attributable to equity holders of the parent	2.440.877
Weighted average number of ordinary shares	7.059.818
Earnings per share	0,35

Subsidiaries

4. Sixteen subsidiaries are included in the Consolidated Interim Statement. The subsidiaries that are included are the following:

	Ownership
Aerofone Ltd.	100,0%
Anza hf.	97,4%
Gaukshöfði ehf.	100,0%
Jörfi ehf.	100,0%
Míla ehf.	100,0%
On-waves S.ä.r.l.	100,0%
On-waves ehf.	85,0%
Radíómiðun ehf.	75,0%
Sensa ehf.	100,0%
Siminn UK Ltd.	100,0%
Sirius IT	92,0%
Síminn hf.	100,0%
Skjá miðlar ehf.	100,0%
Skjárinn ehf.	100,0%
Tæknivörur ehf.	53,5%
Já Upplýsingaveitur ehf.	100,0%

Skipti hf. - Condensed Interim Consolidated Financial Statement 2007 15 All amounts are in thousands of Icelandic kronur

Changes within Skipti

5. Síminn bought all shares in Sensa ehf., and subsidiary Síminn UK bought all shares in Aerofone Ltd. 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.

	Sensa ehf.	Aerofone Ltd.
Tangible assets	93.912	3.452
Intangible assets		334.515
Loans and accounts receivable	161.581	60.181
Financial assets	38.314	5.245
Other assets	18.526	31.562
Cash	70.645	75.360
Total assets	382.977	510.315
Deferred taxation	(2.711)	4.373
Borrowings	(56.165)	(63.040)
Other liabilities	(135.712)	(254.709)
Total liabilities	(194.588)	(313.376)
Net assets	188.389	196.939
Goodwill	871.906	1.137.377
	1.060.295	1.334.316

Satisfied by:

Paid in cash	215.000	1.260.803
Shares in Skipti hf., not issued	840.000	
Direct costs relating to acquisition	5.295	73.513
	1.060.295	1.334.316

If acquisitions had been completed on the first day of the financial year the company´s operating profit for the period would have been 86 millions kr. higher
In the period Skipti sold 46,5 % of its shares in Tæknivörur ehf. The sale had a limited effect on Skipti income statement and balance sheet.

Events after the balance sheet date:

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

7. The consolidated financial statement were approved by the board of directors and authorized for issue on the 26 July 2007.

Skipti hf. - Condensed Interim Consolidated Financial Statement 2007 16 All amounts are in thousands of Icelandic kronur