Eignarhaldsfélagið Farice ehf.

Consolidated Financial Statements

2008

Eignarhaldsfélagið Farice ehf.
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Consolidated Financial Statements

2008

Approved on board meeting March 3, 2009

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Independent Auditor's Report

To the Board of Directors and shareholders of Eignarhaldsfélagið Farice ehf.

We have audited the accompanying Consolidated Financial Statements of Eignarhaldsfélagið Farice ehf., which comprise the Balance Sheet as at December 31, 2008, the Income Statement 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 Consolidated Financial Statements in accordance with International Financial Reporting Standards, as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 Consolidated Financial Statements.

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

Opinion
In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of Eignarhaldsfélagið Farice ehf. as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Explanatory Paragraph
Without further qualifying our opinion we would like to draw attention to note nr. 13 in the Financial Statements which details the Company´s short-term liabilites and its refinancing negotiations. As these negotiations have not yet lead to a conclusion it is a general uncertainty about the going concern of the Company.

Kópavogur, March 3, 2009

Deloitte hf.

Páll Grétar Steingrímsson
State Authorized Public Accountant

Report by the Board of Directors and Managing Director

The Consolidated Financial Statements for the year 2008 consist of the Financial Statements of Eignarhaldsfélagið Farice ehf. and its subsidiary, Farice hf, together referred to as the Company. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

The loss of the year amounted to EUR 3.972.322. According to the Balance Statement the Company's assets amount to EUR 111.201.678, the year's end book value of equity is EUR 26.409.947 and the Company's equity ratio is 23,7%.

At year-end, shareholders in the Company numbered six. Five shareholders owned more than 10% of shares in the Company. Landsvirkjun 29,46%, the Icelandic state 25%, Orkuveita Reykjavíkur 16,83%, Skipti hf. 13,44% and Og fjarskipti hf. 11,05%.

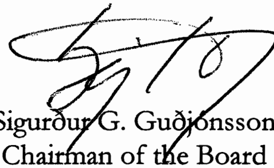
The Board of Directors recommends that the loss of the year should be brought forward to the next year. As regards changes in the equity of the Company, the Board of Directors refers to the Notes attached to the Financial Statements.

It is the opinion of the Board of Directors and the Managing Director that the accounting policies used are appropriate and that these Consolidated Financial Statements present all the information necessary to give a true and fair view of the company's assets and liabilities, financial position and operating performance, as well as describing the principal risk and uncertainty factors faced by the company.

The Board of Directors and the Managing Director hereby confirm the Consolidated Financial Statements for the year 2008 with their signatures.

Reykjavík, March 3, 2009

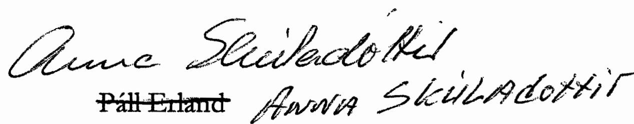
Board of Directors



Sigurður G. Guðjónsson
Chairman of the Board

Stefán Pétursson

Páll Ásgrímsson



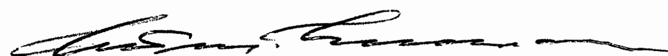
~~Páll Erland~~ ANNA SKÚLADÓTTIR

Friðrik Friðriksson

Þorgerður Marinósdóttir

Gestur G. Gestsson

Managing Director



Guðmundur Gunnarsson

Consolidated Income Statement for the year 2008

	Notes	2008	2007
Operating revenue	4	8.565.493	7.972.716
Operating expenses		(2.251.425)	(2.076.300)
Administrative expenses		(786.222)	(727.152)
Depreciation	9	(4.224.417)	(4.230.315)
Operating profit		1.303.429	938.949
Financial income	6	122.899	64.697
Financial expenses	6	(5.493.999)	(1.738.386)
Net loss before tax		(4.067.671)	(734.740)
Income tax	7	95.349	131.722
Net loss for the year		(3.972.322)	(603.018)
Attributable to:			
Equity holders of the parent		(3.631.099)	(441.353)
Minority interest		(341.223)	(161.665)
		(3.972.322)	(603.018)
Net loss earnings per share			
Basic net loss per share	7	(0,13)	(0,04)

Consolidated Balance Sheet

Assets	Notes	31.12.2008	31.12.2007
Non-current assets			
Point of Presence, Backhaul and Cable Stations	9	5.271.898	5.883.599
Farice 1	9	28.772.088	27.635.695
Cantat	9	4.973.708	5.946.658
Danice	9	66.933.586	13.330.294
Common Items	9	646.162	1.341.479
Prepaid lease		269.952	314.932
Deferred tax assets	14	807.206	711.857
		107.674.600	55.164.513
Current assets			
Accounts receivable		1.701.021	1.254.894
Other receivables		1.171.035	288.877
Bank deposits and cash		655.022	580.965
		3.527.078	2.124.736
Total assets		111.201.678	57.289.250

December 31, 2008

	Notes	31.12.2008	31.12.2007
Equity and Liabilities			
Equity			
Share capital	10	30.886.405	16.972.983
Loss carry-forward	11	(6.208.001)	(2.576.901)
Equity attributable to equity holders of the parent		24.678.404	14.396.082
Minority interest		1.731.543	2.072.766
Total equity		26.409.947	16.468.848
Non-current liabilities			
Long-term liabilites	12	27.533.293	28.406.667
Current liabilities			
Short-term liabilities	13	43.081.630	0
Current maturities	12	7.334.991	3.920.000
Accounts payable		5.190.316	1.943.154
Interest rate swaps		733.261	0
Other current liabilities		918.239	6.550.581
		57.258.437	12.413.735
Total liabilities		84.791.730	40.820.402
Total equity and liabilities		111.201.678	57.289.250

Consolidated Statement of changes in Equity for the year ended December 31, 2008

	Share capital	Loss carry forward	Equity holders of the parent	Minority	Total equity
Balance at January 1, 2007	11.868.544	(2.107.699)	9.760.845	2.207.973	11.968.818
Deferred tax assets adjustment	0	(45.901)	(45.901)	0	(45.901)
Paid in share capital	5.104.439	0	5.104.439	0	5.104.439
Other changes in equity	0	18.051	18.051	26.458	44.509
Net loss for the year	0	(441.352)	(441.352)	(161.665)	(603.017)
Balance at January 1, 2008	16.972.983	(2.576.901)	14.396.082	2.072.766	16.468.848
Paid in share capital	13.913.422	0	13.913.422	0	13.913.422
Net loss for the year	0	(3.631.099)	(3.631.099)	(341.223)	(3.972.322)
Balance at December 31, 2008	30.886.405	(6.208.000)	24.678.405	1.731.543	26.409.948

Consolidated Statements of Cash Flows for the year 2008

	Notes	2008	2007
Operating activities			
Operating profit		1.303.429	938.949
Items not affecting cash		4.232.843	4.221.490
Changes in current assets and liabilities		1.974.017	575.044
Net cash provided by operating activities before interest		7.510.289	5.735.483
Paid in interest income	6	122.899	155.020
Paid interest expenses and exchange rate difference	6	(4.441.200)	(1.709.618)
Net cash provided by operating activities		3.191.988	4.180.885
Investing activities			
Investment in fixed assets	9	(56.718.940)	(14.617.305)
Disposal of assets		26.379	17.098
		(56.692.561)	(14.600.207)
Financing activities			
Long-term borrowings		6.468.422	0
Short-term borrowings		43.081.630	6.088.844
Short-term liabilities repaid		(7.688.844)	0
Long-term liabilities repaid		(2.200.000)	(3.920.000)
Paid in capital stock		13.913.422	5.104.439
		53.574.630	7.273.283
Increase in cash and cash equivalents		74.057	(3.146.039)
Cash and cash equivalents at beginning of year		580.965	3.727.004
Cash and cash equivalents at end of year		655.022	580.965

Notes to Financial Statements

1. General information

Eignarhaldsfélagið Farice ehf. is a limited company incorporated in Iceland. The principal activities of the Company and its subsidiary is to insure safe telecommunications between Iceland and its neighbour countries.

The Company has operations in Iceland, the Faroe Islands and the United Kingdom. The income originates in Iceland and the Faroe Islands while the operating expenses originate in all three countries.

2. Adoption of new and revised standards

Standards and interpretations effective in the current period

The Consolidated Financial Statements are presented in accordance with the new and revised standards (IFRS / IAS) and new interpretations (IFRIC), applicable in the year 2008. These standards and interpretations are:

IAS 39 (revised) -	Financial Instruments: Recognition and Measurement
IFRIC 11, IFRS 2 -	Group and treasury share transactions
IFRIC 12 -	Service concession arrangements
IFRIC 14 - IAS 19 -	The limit on a defined benefit asset, minimum funding requirements and their interaction.

The adoption of the new and revised standard and interpretations has not led to changes in the accounting policies.

Standards and interpretations in issue not yet adopted

Following is an overview of new or revised standards and interpretations that are not yet effective:

IFRS 2 (revised 2008) -	Share-based Payment (effective for accounting periods beginning on or after 1 January 2009);
IFRS 3 (revised 2008) -	Business Combinations (effective for accounting periods beginning on or after 1 July 2009);
IFRS 8 -	Operating Segments (effective for accounting periods beginning on or after 1 January 2009);
IAS 1 (revised 2008) -	Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009);
IAS 23 (revised 2008) -	Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009);
IAS 27 (revised 2008) -	Consolidated and Separate Financial Statements;
IAS 39 (revised 2008) -	Financial Instruments: Recognition and Measurement (effective for accounting periods beginning on or after 1 January 2009);

Minor changes to various standards as a result of the IASB's annual improvement measures (2008). Most changes take effect for periods beginning 1 January 2009 or later.

IFRIC 13 -	Customer Loyalty Programs (effective for accounting periods beginning on or after 1 July 2008);
IFRIC 15 -	Agreements for the Construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009);
IFRIC 16 -	Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008);
IFRIC 17 -	Non-cash Assets to Owners (effective for accounting periods beginning on or after 1 July 2009);

2. Adoption of new and revised standards (continued)

Revised IAS 1 will have the impact that all items of income and expense (including those recognised outside of profit or loss) must be presented either in a single statement as a statement of comprehensive income; or in two statements as a seperate income statement and a statement of comprehensive income.

Revised IAS 23 eliminates the previously available option to expense all borrowing costs when incurred. This revision will not have any impact on these Financial Statements because it has always been the Company's accounting policy to capitalise borrowing costs incurred on qualifying assets.

Revised IFRS 3 states that all acquisition-related costs are to be recognised as period expenses. Implementation may also mean a change in accounting for the recognition of goodwill related to the minority share of the purchased companies, step acquisitons and partial disposal of shares in subsidiaries.

It is the management´s assessment that the adoption of those new and revised standards and interpretations will have no material impact on the Financial Statements. The above new or revised standards and interpretations have not yet been approved by the EU.

3. Significant accounting policies

Statement of compliance

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

Basis of preparation

The Consolidated Financial Statements are prepared under the historical cost basis except for certain financial instruments. These Financial Statements are presented in euros since that is the functional currency in which the majority of the Company´s transactions are denominated.

The principal accounting policies adopted are set out below.

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.

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

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination 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 Company except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to Financial Statements

3. Significant accounting policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Leasing

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

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the 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 Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Foreign currencies

Transactions in currencies other than euros are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. 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.

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.

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

Taxation

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

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

3. Significant accounting policies (continued)

Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 recognised to the extent that it is probable that taxable profits will be available against which 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 tax profit nor the accounting profit. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company´s intends to settle its current tax assets and liabilities on a net basis.

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 is calculated at the tax rates for each country that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

Property, plant and equipment are recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the company and the cost of the asset can be measured in a reliable manner. Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy.

Depreciation is charged so as to write off the cost or valuation of assets, other than properties under construction, over their estimated useful lives, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible assets

At each balance sheet date, the company reviews the carrying amounts of its tangible 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.

Recoverable amount is the greater of 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised as income immediately, 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.

Notes to Financial Statements

3. Significant accounting policies (continued)

Financial assets

Accounts receivable and other receivables are valued at nominal value less any impairment losses.

Financial assets 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.

Financial liabilites

Long-term liabilities

Long-term liabilities are valued at nominal value less payments made and the remaining nominal balance is adjusted by exchange rate or index, if applicable. Interest expense is accrued on a periodical basis, based on the principal outstanding and at the interest rate applicable.

Accounts payable and other liabilities

Accounts payable and other liabilities are valued at fair value.

Derivative financial instruments

The Company uses derivative financial instruments to hedge its risk for changes in interest rates. Those financial instruments are interest rate swap contracts.

The use of financial derivatives is governed by the company's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives.

4. Revenue

Net sales are specified as follows:

	31.12.2008	31.12.2007
Lease of bandwidth - Farice 1	6.666.493	5.979.883
Lease of bandwidth - Cantat	1.899.000	1.984.008
Gain on sales of assets	0	8.825
	8.565.493	7.972.716

5. Salaries

Salaries and salary-related expenses paid by the Company are specified as follows:

	31.12.2008	31.12.2007
Salaries	286.120	172.744
Pension fund	34.213	24.080
Salary-related expenses	38.380	16.470
Other employee expenses	2.429	5.066
	361.142	218.361
Average number of positions	2,3	1,3

6. Financial income / (expenses)

	31.12.2008	31.12.2007
Interest income	122.899	64.697
Interest expenses and borrowing costs	(3.399.602)	(1.783.862)
Exchange rate differences	(2.944.006)	45.476
Interest rate swaps	(733.261)	0
Impairment of bonds receivables	(87.209)	0
Capitalized interest expenses and borrowing costs	1.670.079	0
	(5.493.999)	(1.738.386)

7. Income tax

Income tax is specified as follows:

	2008	2007
Deferred tax revenue	95.349	131.722

	2008		2007	
	Amount	%	Amount	%
Net loss before tax	(4.067.671)		(734.740)	
Tax at the rate of 15%/18%	610.151	-15,0%	132.253	18,0%
Effect of different tax rates of other jurisdictions	10.760	-0,3%	(531)	0,1%
Change in tax rate	(108.442)	2,7%	0	0,0%
Exchange differences	(453.932)	11,2%	0	0,0%
Other items	36.812	-0,9%	0	0,0%
Income tax according to income statement	95.349	-2,3%	131.722	18,1%

During the year the income tax changed from 18% til 15%. The effect on the Income Statement due to changes in tax rates amount to 108.442.

8. Earnings per share

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

	31.12.2008	31.12.2007
Net loss for the period	(3.972.322)	(603.018)
Total average number of shares including potential shares	30.886.405	16.972.983
Basic net loss per share	(0,13)	(0,04)

9. Property, plant and equipment

	Pop/ Bach./CS	Farice 1	Cantat Danice	Common Items	Total
Cost					
At January 1, 2007	6.954.191	34.544.546	9.729.500	4.411.748	55.639.985
Additions	1.244.040	0	13.330.294	0	14.574.334
At January 1, 2008	8.198.231	34.544.546	23.059.794	4.411.748	70.214.319
Additions	193.040	2.863.620	53.603.293	58.988	56.718.941
Disposals	0	0	0	(40.161)	(40.161)
At December 31, 2008	8.391.271	37.408.166	76.663.087	4.430.575	126.893.099
Accumulated depreciation					
At January 1, 2007	1.504.500	5.181.624	2.809.892	2.380.171	11.876.187
Charge for the year	810.132	1.727.227	972.950	720.006	4.230.315
Disposals	0	0	0	(29.908)	(29.908)
At January 1, 2008	2.314.632	6.908.851	3.782.842	3.070.269	16.076.594
Charge for the year	804.743	1.727.227	972.950	719.499	4.224.419
Disposals	0	0	0	(5.356)	(5.356)
At December 31, 2008	3.119.375	8.636.078	4.755.792	3.784.412	20.295.657
Carrying Amount					
At December 31, 2008	5.271.896	28.772.088	71.907.295	646.163	106.597.442
At January 1, 2008	5.883.599	27.635.695	19.276.952	1.341.479	54.137.725

The following uesful lives are used in the calculation of depreciation.

Point of Presence (PoP)	10 years
Backhaul	10 years
Cable stations	10 years
Farice 1	20 years
Cantat	10 years
Common items	5-10 years

10. Share capital

Common stock is as follows:

	Shares	Ratio	Nominal value
Total share capital January 1, 2008	16.972.983	55,0%	16.972.983
Paid in share capital	13.913.422	45,0%	13.913.422
Total share capital at December 31, 2008	30.886.405	100%	30.886.405

Each share of one euro carries one vote.

11. Loss carry-forward

	31.12.2008	31.12.2007
Balance at January 1	(2.576.901)	(2.107.698)
Deferred tax assets adjustment January 1	0	(45.901)
Other changes in equity	0	18.051
Net loss for the year	(3.631.100)	(441.353)
Balance at December 31	(6.208.001)	(2.576.901)

12. Long-term liabilities

	31.12.2008	31.12.2007
Loans in EUR	27.533.293	28.406.667
Current maturities	7.334.991	3.920.000
Loans from credit institutions	34.868.284	32.326.667

Aggregated annual maturities are as follows:

	31.12.2008	31.12.2007
Current maturities	7.334.991	3.920.000
Installments 2010/2009	8.688.324	8.826.666
Installments 2011/2010	8.083.324	7.360.000
Installments 2012/2011	3.618.324	2.820.000
Installments 2013/2012	3.618.324	2.350.000
Installments later	3.524.997	7.050.001
	34.868.284	32.326.667

The terms of a loan facilities include various provisions that limits certain actions by the company without prior consulting with the lender. In addition the loan facilities include certain financial covenants.

13. Short-term liabilities

loan agreement with Landsvirkjun to finance the investments in Cantat and Danice. The outstanding amount of EUR 43,1 is included in the Company´s current liabilities at the end of the year. The Company is negotiating a refinance on these loans.

14. Deferred tax

	Deferred tax asset	Deferred tax liabilities	Total
At January 1, 2007	2.015.421	(1.389.385)	626.036
Deferred tax assets adjustment January 1	(45.901)	0	(45.901)
Calculated tax for the period	77.463	54.259	131.722
At January 1, 2008	2.046.983	(1.335.126)	711.857
Effect on a change in tax rate	30.534	(138.976)	(108.442)
Calculated tax for the period	398.647	259.076	657.723
Exchange differences	(453.932)	0	(453.932)
At December 31, 2008	2.022.232	(1.215.026)	807.206

14. Deferred tax (continued)

There is no deferred income tax liability credited in the balance sheet due to taxation loss carry forward, even though income tax liability is related to some individual items of the balance sheet. The following are the major deferred tax liabilities and assets recognised:

	31.12.2008	31.12.2007
Fixed tangible assets	(1.215.026)	(1.335.124)
Loss carry-forward	1.912.243	2.046.981
Other	109.989	0
	807.206	711.857

At balance sheet date the Company has unused tax losses available for offset against future profits as follows:

Available for the year 2012	16.634
Available for the year 2013	1.353.322
Available for the year 2014	2.670.938
Available for the year 2015	2.603.484
Available for the years 2016-2018	4.339.709
	10.984.087

15. Financial risk

Financial risk management objectives

The Company's management monitors and manages the financial risks relating to the operations of the Company. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company seeks to minimise the effects of these risks for example by using derivative financial instruments to hedge these risk exposures. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes

Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has floating rate interest bearing financial instruments and has entered into a variety of interest rate swaps to hedge its exposure to interest rate fluctuations. The interest rate swaps are not active at year end.

Sensitivity analysis

In the analysis below the effects of 50 and 100 basis points decrease on P/L and equity are demonstrated. The sensitivity analysis below have been determined based on the exposure to interest rates at the balance sheet date. The analyses is prepared assuming the amount outstanding at the balance sheet date was outstanding for the whole year. The analysis assumes that all variables other than basis points, are held constant. The sensitivity analysis does not take into account tax effects. A positive number below indicates an increase in profit and other equity. An increase in basis points would have an opposite impact on income statement and equity.

	31.12.2008		31.12.2007	
	50 bps.	100 bps.	50 bps.	100 bps.
Effects on P/L and equity	(386.021)	(772.042)	(71.673)	(143.345)

15. Financial risk (continued)

Foreign currency risk

Foreign currency risk exposure does arise when there is a difference between assets and liabilities denominated in foreign currency. The majority of the Company's assets and liabilities are denominated in EUR.

Foreign currency risk 31.12 2008

	Assets	Liabilities	Net balance
JPY	0	1.108.502	(1.108.502)
USD	0	4.107.565	(4.107.565)
CHF	0	809.331	(809.331)
NOK	1.982	218.422	(216.440)
ISK	839.081	191.196	647.885
GBP	442.517	125.043	317.474
DKK	201.762	101.016	100.746

Foreign currency risk 31.12 2007

	Assets	Liabilities	Net balance
ISK	141.826	1.230.375	(1.088.549)
GBP	308.385	89.664	218.721
DKK	27.421	702.345	(674.924)

Sensitivity analysis

The table below shows what effects 5% and 10% increase of the relevant foreign currency rate against the EUR would have on P/L and equity. The foreign currency assets and liabilities in the sensitivity analysis are mainly foreign currency borrowings and foreign currency bank balances. The analysis is prepared assuming the amount outstanding at the balance sheet date was outstanding for the whole year. The analysis assumes that all variables other than the relevant foreign currency rate, are held constant. The sensitivity analysis does not take into account tax effects. A positive number below indicates an increase in profit and other equity. A decrease of the relevant foreign currency rate against the EUR would have an opposite impact on P/L and equity.

Effects on P/L and equity	31.12.2008		31.12.2007	
	5%	10%	5%	10%
JPY	(55.425)	(110.850)	0	0
USD	(205.378)	(410.757)	0	0
CHF	(40.467)	(80.933)	0	0
NOK	(10.822)	(21.644)	0	0
DKK	5.037	10.075	(33.746)	(67.492)
ISK	32.394	64.789	(54.427)	(108.855)
GBP	15.874	31.747	10.936	21.872

15. Financial risk (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The Company monitors the credit risk development on a regular basis. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Maximum credit risk:	Carrying amounts	
	31.12 2008	31.12 2007
Accounts receivables	1.701.021	1.254.894
Other receivables	1.171.035	288.877
Cash and cash equivalents	655.022	580.965
	3.527.078	2.124.736

Liquidity risk management

Liabilities 31.12 2008	Within one year	2010	2011+	Total
Non-interest bearing	6.841.816	0	0	6.841.816
Floating interest rates	50.416.621	8.688.324	18.844.969	77.949.914
	57.258.437	8.688.324	18.844.969	84.791.730
Assets 31.12 2008				
Non-interest bearing	2.781.355	0	0	2.781.355
Floating interest rates	655.022	0	0	655.022
Fixed interest rates	90.701	0	0	90.701
	3.527.078	0	0	3.527.078
Net balance 31.12 2008	(53.731.359)	(8.688.324)	(18.844.969)	(81.264.652)

Liabilities 31.12 2007	Within one year	2009	2010+	Total
Non-interest bearing	2.404.891	0	0	2.404.891
Floating interest rates	10.008.844	8.826.667	19.580.000	38.415.511
	12.413.735	8.826.667	19.580.000	40.820.402
Assets 31.12 2007				
Non-interest bearing	1.543.771	0	0	1.543.771
Floating interest rates	580.965	0	0	580.965
	2.124.736	0	0	2.124.736
Net balance 31.12 2007	(10.288.999)	(8.826.667)	(19.580.000)	(38.695.666)

Notes to Financial Statements

15. Events after the Balance Sheet date

In the year 2004 the Company made Interest Rate Swap Agreements with Landsbanki Íslands hf. and Glitnir hf. In the year end the contracts´ estimated fair value is negative by EUR 0,7 million and the principal amounting to EUR 23,5 million. In October 2008, the Icelandic Financial Supervisory Authority (the "FSA") used powers granted by the Icelandic Parliament, to take control of the Banks. Substantial part of the Banks' assets and operations were transferred to new banks. The transfer of assets from the Banks to the New Banks included all long term loan agreements. However, as a general rule, no derivative contracts were transferred from the Banks to the New Banks, including Interest Rate Swap Agreements. In November 2008, the District Court of Reykjavik granted the Banks a moratorium. On the January 27, 2009, Landsbanki Íslands hf. called in its agreement but Glitnir hf. has not made any announcement on this matter. The Company is checking its legal rights regarding the agreements and therefore the final treatment of the Interest Rate Swap Agreements is subject to uncertainty.

16. Approval of Consolidated Financial Statements

The consolidated Financial Statements were approved by the Board of Directors and authorised for issue on March 3, 2009.