Spölur ehf

Financial Statements for the year
October 1, 2007 to September 30, 2008

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Spölur ehf.
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The Board of Director's and the CEO Report

Spölur ehf´s purpose is to take care of the preparation, financing and execution of a road/tunnel construction near the mouth of Hvalfjordur as well as the operation of the tunnel until all debt has been repaid as laid down by Act No. 45/1990 on the Hvalfjordur Road Shortcut Project in accordance with an agreement with the Icelandic Ministry of Transport on behalf of the Icelandic Government.

The year's operation

The period from October 1st 2007 to September 30th 2008 is the tenth complete fiscal year of operation of the Company. Altogether 2.006.989 paid toll when traveling through the tunnel which is about 0,3% increase from the previous fiscal year. This corresponds to an average per day of 5.484 cars. The average net income from each car keeps getting lower, both in real and nominal terms, especially as more and more customers are using the various discount terms on offer in addition to decreased toll.

The number of personnel was 16 as the previous year and the number of positions was 14,3.

Net revenue, after deducting VAT was MISK 979 compared to 1.040 during the same period the previous year. The loss of the year was MISK 366 compared to a profit of MISK 282 the year before. Operating expenses of the year was MISK 352 compared to MISK 236 the year before.

The board of directors of the Company believes that all the information needed to form a fair view of the company’s position at the end of September 2008 and of its activities during the accounting year is embedded in the accounts.

Appropriation of income

The board of directors suggests that a dividend amounting to 43 MISK, 0.50 per share, to be paid in the year 2009, but refers to the financial statements regarding appropriation of the year’s net loss and changes in shareholders equity.

Ownership

The shares of the company MISK 86 are wholly owned by Eignarhaldsfélagið Spölur hf.

According to the best knowledge of the Board of Directors the Financial Statements of the company are prepared in accordance with International Reporting Standards and the provisions of the Annual Accounts Act no 3/2006 and give a true and fair view of the financial company's assets and liabilities, financial position and operating results for the year October 1st 2007 to September 30th 2008.

The Board of Directors believe that the Financial Statements and the Report of the Board of Directors provide a clear overview of the development and operating results of the company, its financial position in the year October 1st 2007 to September 30th 2008 and provide information regarding the key risk and uncertainity factors which the company faces.

The Board of Directors and the Chief Executive Officer of Spölur ehf hereby confirm the Financial Statements of Spölur ehf for the period October 1st 2007 to September 30th 2008 with their signature.

Reykjavik, November 27 2008.

Board of Directors of Spölur ehf

Gísli Gíslason, chairman

Gunnar Gunnarsson

Hafsteinn Hafsteinsson

Hallfreður Vilhjálmsson

Þórður Magnússon

Chief Executive Officer of Spölur ehf

Gylfi Þórðarson

Independent auditor's report

To the Shareholders and Board of Directors of Spölur ehf.

We have audited the accompanying financial statements of Spölur ehf which comprise the balance sheet as of 30 September 2008 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 the European Union (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 accompanying financial statements give a true and fair view of the financial position of Spölur ehf as of 30 September 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 EU.

Reykjavik, November 27 2008.

PricewaterhouseCoopers hf

Hjalti Schiöth

Arna G. Tryggvadóttir

Income statement

	Notes	Q4 1/7 08 - 30/9 08	Q4 1/7 07 - 30/9 07	YTD 1/10 07 - 30/9 08	YTD 1/10 06 - 30/9 07
Toll		325.336	353.847	979.464	1.040.242
Maintenance and operation of tunnel		(34.765)	(28.938)	(126.584)	(117.427)
Research cost for new tunnel	7	(10.567)	(7.798)	(103.264)	(7.798)
Office and administrative expenses		(28.667)	(27.763)	(113.019)	(103.895)
Bad debt expense	11	(4.914)	(5.596)	(9.436)	(6.391)
Depreciation	10	(229.946)	(57.977)	(401.344)	(229.499)
Profit from operations		16.477	225.776	225.818	575.232
Interest revenues and indexation	8	47.187	17.877	86.428	70.244
Interest expenses, indexation and exchange differences	8	(121.576)	(106.971)	(758.500)	(301.543)
		(74.389)	(89.094)	(672.072)	(231.299)
Profit (loss) before tax		(57.912)	136.682	(446.254)	343.933
Income tax expense	9	10.424	(24.603)	80.326	(61.908)
Net profit (loss)		(47.488)	112.079	(365.928)	282.025
Attributable to:					
Equity holders of the Company		(47.488)	112.079	(365.928)	282.025
Earnings per share for profit attributable to equity holders of the company during the year:					
- basic and diluted	17	(0,55)	1,30	(4,25)	3,28
Income statement by quarters	5				

The notes on pages 8-22 are an integral part of the financial statements.

Spölur ehf. Financial Statements for the year October 1 2007 to September 30 2008. Amounts in thousands of ISK

Balance sheet

Assets	Notes	30/9 2008	30/9 2007
Non-current assets	10		
Hvalfjordur Tunnel project, start-up and construction costs		4.155.577	4.496.360
Motor vehicles, transponders and office equipment		96.967	97.698
		4.252.544	4.594.057
Current assets			
Receivables and prepayments	11	275.545	258.471
Cash and cash equivalents		137.522	255.582
		413.068	514.053
Total assets		4.665.612	5.108.110

Shareholders' equity			
Ordinary shares	12	86.000	86.000
Legal reserve		21.500	21.500
Retained earnings		197.108	595.481
Total shareholders' equity		304.608	702.981
Liabilities			
Non-current liabilities			
Borrowings	14	3.552.515	3.572.596
Deferred income tax liabilities	15	83.959	164.284
Provision due to transponders	16	71.628	69.874
		3.708.101	3.806.755
Current liabilities			
Trade and other payables	13	44.124	42.083
Borrowings	14	376.615	336.160
Deferred income		232.162	220.131
		652.902	598.374
Total liabilities		4.361.003	4.405.129
Total equity and liabilities		4.665.612	5.108.110

The notes on pages 8-22 are an integral part of the financial statements.

Spölur ehf. Financial Statements for the year October 1 2007 to September 30 2008. Amounts in thousands of ISK

Statement of changes in shareholders' equity

	Notes	Share capital	Legal reserve	Retained earnings	Total
Balance at 1 October 2006		86.000	19.761	346.696	452.457
Net profit				282.025	282.025
Dividend	19			(31.500)	(31.500)
Allocate to legal reserve			1.739	(1.739)	0
		0	1.739	248.786	250.525
Balance at 30 September 2007/ Balance at 1 October 2007		86.000	21.500	595.481	702.981
Net loss				(365.928)	(365.928)
Dividend	19			(32.445)	(32.445)
		0	0	(398.373)	(398.373)
Balance at 30 September 2008		86.000	21.500	197.108	304.608

The notes on pages 8-22 are an integral part of the financial statements.

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Cash flow statement

	Notes	1/10 2007- 30/9 2008	1/10 2006- 30/9 2007
Cash flows from operating activities			
Cash generated from operations	20	643.106	819.929
Interest (paid) received		(96.567)	(91.529)
Net cash from operating activities		546.539	728.400
Cash flows from (to) investing activities			
Purchase of property, plant and equipment	10	(59.830)	(77.657)
Loans made		(17.192)	(169.649)
Net cash used in investing activities		(77.023)	(247.306)
Cash flows from (to) financing activities			
Repayments of borrowings		(593.792)	(414.472)
Dividends paid to the Company's shareholders		(32.445)	(31.500)
Net cash used in financing activities		(626.237)	(445.972)
Net (decrease) increase in cash and cash equivalents		(156.721)	35.121
Exchange gains/(losses) on cash and bank overdrafts		38.662	(476)
Cash and cash equivalents at beginning of year		255.582	220.936
Cash and cash equivalents at end of year		137.522	255.582
Cash generated from operations	20		
Net (loss) profit		(365.928)	282.025
Adjustments for items not affecting cash		993.090	522.706
Changes in working capital		15.945	15.198
		643.106	819.929

The notes on pages 8-22 are an integral part of the financial statements.

Spölur ehf. Financial Statements for the year October 1 2007 to September 30 2008. Amounts in thousands of ISK

Notes to the financial statements

1. General information

Spölur ehf´s purpose is to take care of the preparation, financing and execution of a road/tunnel construction near the mouth of Hvalfjordur as well as the operation of the tunnel until all debt has been repaid as laid down by Act No. 45/1990 on the Hvalfjordur Road Shortcut Project in accordance with an agreement with the Icelandic Ministry of Transport on behalf of the Icelandic Government.

The company has its security bonds listed on the OMX Nordic Exchange in Iceland.

The financial statements are presented in Icelandic krona (ISK), rounded to thousand.

These financial statements have been approved for issue by the board of directors on 27 November 2008.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of Spölur ehf have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the Europeon Union (EU).

The accounting policies, as adopted by the EU, depart from full IFRS in few standards, interpretations and amendments that will have minor effects on future reporting of the company.

These financial statements have been prepared under the historical cost convention.

(a) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the company

The following standards and amendments to existing standards have been published and are mandatory for the Company´s accounting periods beginning on or after 1 January 2009 or later periods, but the company has not early adopted them:

IFRS 8, ‘Operating segments’ (effective from 1 January 2009), replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, ‘Disclosures about segments of an enterprise and related information’. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The company will apply IAS 23 (Amendment) retrospectively from 1 January 2009.

IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The company will apply IAS 1 (Revised) from 1 January 2009.

Notes to the financial statements

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The company will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008. These amendments are unlikely to have an impact on the Company´s accounts and have therefore not been analysed in detail.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. See note 4.

2.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. At 30 September 2008, the Company is organised on a national basis into one business segments: (1) toll. No segment results are therefore presented.

2.3 Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.4 Property, plant and equipment

Property, plant and equipment comprise mainly Hvalfjordur tunnel, its start-up and construction costs. All property, plant and equipment (PPE) is shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Hvalfjord tunnel project, start-up and construction cost	11 - 20 years
Motor vehicles, transponders and equipment.	5-7 years

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

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Notes to the financial statements

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement.

2.5 Intangible assets

Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will generate future economic benefits, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.6 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Receivables and prepayments

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

2.8 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Notes to the financial statements

2.9 Share capital

Ordinary shares are classified as equity.

2.10 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.12 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.13 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Provision includes return fee of transponders.

2.14 Deferred income

Deffered income is front-end fees received from customers as a prepayment for traveling through the tunnel. These amounts are non-refundable and are released to income as the tunnel are traveled through.

2.15 Revenue recognition

Income from toll is stated in the income statement as net of sales expense of transponders and value added tax. The revenue recognition is on delivered services.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Notes to the financial statements

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.16 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the interim financial statements in the period in which the dividends are approved by the Company's shareholders meeting.

2.17 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. Financial risk management

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Company´s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company´s financial performance. Risk management is carried out within the company where applicable under policies approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

The Company has certain borrowings and assets in foreign currency whose are exposed to foreign exchange risk arising form various currency exposures, primarily with respect to EUR. Currency exposure arising from them is managed primarily through keeping them in mininum as part of borrowings and in several currencys. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity´s functional currency.

At 30 September 2008, if the currency had weakened/strengthened by 12% against the EUR with all other variables held constant, post-tax loss for the year would have been ISK 0,4 million higher/lower as a result of foreign exchange gains/losses on translation of EUR denominated financial instruments

At 30 September 2008, if the currency had weakened/strengthened by 12% against the EUR with all other variables held constant, post-tax loss for the year would have been ISK 24,5 million lower/higher as a result of foreign exchange gains/losses on translation of EUR denominated borrowings.

(ii) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from long-term borrowings and on interest-bearing assets. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. Company policy is to maintain approximately 80-90% of its borrowings in fixed rate instruments. During 2008 and 2007, the Company's borrowings at variable rate were denominated in following currencys: USD, CHF, JPY and EUR.

Notes to the financial statements

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift.

At 30 September 2008, if interest rates on interest-bearing assets had been 0.5% higher/lower with all other variables held constant, post-tax loss for the year would have been ISK 2,2 million higher/lower, as a result of higher/lower interest revenue on interest-bearing assets.

At 30 September 2008, if interest rates on functional currency-denominated borrowings had been 0.1% higher/lower with all other variables held constant, post-tax loss for the year would have been ISK 4,5 million lower/higher, as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and services not provided until payments are secured.

Exposure to credit risk
The carrying amount of financial assets represent the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was:

		Carrying amount	
	Note	**30/9 2008**	**30/9 2007**
Trade receivables	11	69.743	67.995
Receivables from parent	11	179.149	169.345
Other receivables and prepayments	11	26.654	21.131
Cash and cash equivalents		137.522	255.582
		413.068	514.053

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The company maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Company´s financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 30 September 2008	**Carrying amount**	**Contractual cash flow**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 Years**
Borrowings	3.929.130	3.970.415	580.875	376.615	1.129.846	1.883.077
Trade and other payables ...	44.124	44.124	44.124	0	0	0

At 30 September 2007	**Carrying amount**	**Contractual cash flow**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 Years**
Borrowings	3.908.756	3.951.672	590.076	336.160	1.008.479	2.016.958
Trade and other payables ...	42.083	42.083	42.083	0	0	0

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Notes to the financial statements

3.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company´s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt.

3.3 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Notes to the interim financial statements

5. Quarterly results

	Q4 1/7 08 - 30/9 08	Q3 1/4 08 - 30/6 08	Q2 1/1 08 - 31/3 08	Q1 1/10 07 - 31/12 07	Q4 1/7 07 - 30/9 07
Toll	325.336	257.410	190.796	205.922	353.847
Maintenance and operation of tunnel	(34.765)	(33.971)	(30.057)	(27.790)	(28.938)
Research cost for new tunnel	(10.567)	(41.630)	(47.014)	(4.053)	(7.798)
Office and administrative expenses	(28.667)	(27.903)	(24.133)	(32.316)	(27.763)
Bad debt expense	(4.914)	(2.786)	(264)	(1.472)	(5.596)
Depreciation	(229.946)	(57.977)	(55.443)	(57.977)	(57.977)
Profit from operations (EBIT)	16.477	93.142	33.885	82.314	225.776
Finance costs - net	(74.389)	(274.888)	(212.376)	(110.419)	(89.094)
Profit (loss) before tax	(57.912)	(181.746)	(178.491)	(28.106)	136.682
Income tax expense	10.424	32.714	32.128	5.059	(24.603)
Net profit (loss)	(47.488)	(149.031)	(146.362)	(23.047)	112.079
Operating profit before depreciation (EBITDA)	246.423	151.120	89.328	140.291	283.753

6. Employee benefit expense

	1/10 07 - 30/9 08	**1/10 06 - 30/9 07**
Wages and salaries	72.369	65.075
Social security costs	4.211	3.951
Pension costs	6.851	6.117
Union costs	971	841
	84.402	75.983
Number of employees	16	16

7. Research cost for new tunnel

Research cost for new tunnel	103.264	7.798

In the beginning of 2007, a collaboration started between Spölur ehf and the Icelandic Road administration regarding preparation of "doubleing" the Route 1 in Kjalarnes and the tunnel of Hvalfjördur. Spölur was in charge of the ground work regarding the tunnel and paid all expenses related to it. This work was finished in September 2008.

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Notes to the interim financial statements

8. Finance income and costs

	1/10 07 - 30/9 08	1/10 06 - 30/9 07
Interest expense:		
- bank borrowings	(162.737)	(173.279)
- other interest expenses	(26)	(22)
	(162.762)	(173.302)
Interest income and indexation	86.428	70.244
Net foreign exchange transaction gains/(losses) and indexation	(595.737)	(128.241)
Net finance cost	(672.072)	(231.299)

9. Income tax expense

Deferred tax (Note 15)	(80.326)	61.908
(Loss) Profit before tax	(446.254)	343.933
Tax calculated at domestic tax rates 18% (2007: 18%)	(80.326)	61.908
Tax charge	(80.326)	61.908

The weighted average applicable tax rate was 18% (2007: 18%).

Amendments to Icelandic taxation legislation, adopted in May 2008, will not lower corporate income tax from 18% to 15% for Spölur ehf this year. The amendments take affect as of 1st of January 2008 but only for those that have the calender year 2008 and those that have their beginning of the year at February 1st 2008 or later.

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10. Property, plant and equipment

	Start-up and construction cost of road tunnel	Motor vechicles, transponders and office equipments	Total
At 1 October 2006			
Cost	6.681.241	242.434	6.923.676
Accumulated depreciation	(2.047.045)	(130.730)	(2.177.776)
Net book amount	4.634.196	111.704	4.745.900
Year ended 30 September 2007			
Opening net book amount at 1 October 2006	4.634.196	111.704	4.745.900
Additions	53.892	23.765	77.657
Depreciation charge	(191.728)	(37.771)	(229.499)
Closing net book amount	4.496.360	97.698	4.594.057
At 30 September 2007			
Cost	6.735.134	266.199	7.001.333
Accumulated depreciation	(2.238.774)	(168.501)	(2.407.275)
Net book amount	4.496.360	97.698	4.594.057
Year ended 30 September 2008			
Opening net book amount	4.496.360	97.698	4.594.057
Additions	29.818	30.012	59.830
Depreciation charge	(370.602)	(30.742)	(401.344)
Closing net book amount	4.155.577	96.967	4.252.544
At 30 September 2008			
Cost	6.764.952	296.211	7.061.163
Accumulated depreciation	(2.609.376)	(199.243)	(2.808.619)
Net book amount	4.155.577	96.967	4.252.544

In the year 2008 there was a change of accounting estimate regarding depreciation of the tunnel project. Instead of depreciation of 35 years the tunnel are now depreciated in 11 - 20 years or around 2018 when the long term loans will be paid off. These changes will lead to a double depreciation, with an increase from 191 million ISK to 371 million ISK.

11. Receivables and prepayments

	30/9 2008	**30/9 2007**
Current receivables and prepayments:		
Trade receivables	75.705	73.305
Less: Provision for impairment of receivables	(6.295)	(5.595)
Trade receivables – net	69.410	67.710
Receivables from related parties (note 21)	332	286
Receivables from parent (note 21)	179.149	169.345
Other receivables and prepayments	26.654	21.131
	275.545	258.471

Current receivables are due within one year from the balance sheet date.

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The fair values of trade and other receivables are as follows:	**30/9 2008**	**30/9 2007**
Trade receivables	69.410	67.710
Receivables from related parties (note 21)	332	286
Receivables from parent (note 21)	179.149	169.345
Other receivables and prepayments	26.654	21.131
	275.545	258.471

As of 30 September 2008, trade receivables of ISK 36 million (2007:ISK 36 million) were fully performing.

Trade receivables that are less than two months past due are not considered impaired. As of 30 September 2008, trade receivables of ISK 32,6 million (2007: ISK 25,1 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

Up to 1 month	28.141	20.139
1 to 2 months	4.420	4.991
	32.562	25.129

As of 30 September 2008, trade receivables of ISK 1,2 million (2007: ISK 6,8 million) were impaired and provided for. The amount of the provision was ISK 6,3 million as of 30 September 2008 (2007: ISK 5,6 million). The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

Over 2 months	1.174	6.830
	1.174	6.830

Movements on the provision for impairment of trade receivables are as follows:

At 1 October 2006	12.253
Provision for receivables impairment	6.391
Receivables written off during the year as uncollectible	(13.049)
At 30 September 2007	5.595
At 1 October 2007	5.595
Provision for receivables impairment	9.436
Receivables written off during the year as uncollectible	(8.736)
At 30 September 2008	6.295

Unwind of discount is included in ‘toll’ in the income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The company does not hold any collateral as security.

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Notes to the interim financial statements

12. Share capital

	Number of shares (thousands)	Ordinary shares	Treasury shares	Total
At 1 October 2006	86.000	86.000	0	86.000
At 30 September 2007	86.000	86.000	0	86.000
At 1 October 2007	86.000	86.000	0	86.000
At 30 September 2008	86.000	86.000	0	86.000

The total authorised number of ordinary shares is 86 million shares (2007 : 86 million shares) with a par value of ISK 1 per share (2007 : ISK 1 per share). All issued shares are fully paid.

13. Trade and other payables

	30/9 2008	**30/9 2007**
Trade payables	22.981	13.022
Accruals and other payables	10.348	5.134
Other payables	10.794	23.927
	44.124	42.083

14. Borrowings

Non-current:		
Bank borrowings	3.552.515	3.572.596
Current:		
Bank borrowings	376.615	336.160
Total borrowings	3.929.130	3.908.756

Bank borrowings are secured by trade receivables, shares and cash.

Carrying amount trade receivable are ISK 69,7 million and cash and cash equivalents are ISK 137,5 million.

Liabilities in currency:	Total 30/9 2008	Total 30/9 2007
Liabilities in ISK, index linked, fixed 3,75% interest	2.730.037	2.678.074
Liabilities in ISK, index linked, fixed 4,65% interest	994.833	976.766
Liabilities in EUR, 3 months LIBOR plus fixed premium	204.260	122.598
Liabilities in USD, 3 months LIBOR plus fixed premium	0	46.380
Liabilities in CHF, 3 months LIBOR plus fixed premium	0	52.820
Liabilities in JPY, 3 months LIBOR plus fixed premium	0	32.118
	3.929.130	3.908.756
Current maturates	(376.615)	(336.160)
	3.552.515	3.572.596

Annual maturates of non-current liabilities:

Year 2009 / 2008	376.615	336.160
Year 2010 / 2009	376.615	336.160
Year 2011 / 2010	376.615	336.160
Year 2012 / 2011	376.615	336.160
Later	2.422.668	2.564.117
	3.929.130	3.908.756

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The carrying amounts and fair value of the non-current borrowings are ISK 3.553 million and ISK 2.889 million respectively. The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 4%.

15. Deferred income tax

Deferred income taxes are calculated in full on temporary differences under the liability method.

The gross movement on the deferred income tax account is as follows:

1 October 2006	102.376
Income statement charge (Note 9)	61.908
At 30 September 2007	164.284
1 October 2007	164.284
Income statement charge (Note 9)	(80.326)
At 30 September 2008	83.959

Deferred income tax liability (assets) analyses on the following items:	**30/9 2008**	**30/9 2007**
Non-current assets	297.964	292.941
Taxable loss carried forward	(214.005)	(128.657)
	83.959	164.284

16. Provisions due to transponders

Provision due to transponders:

At 1 October 2006	58.739
Changes entered into income statement	11.135
At 30 September 2007	69.874
At 1 October 2007	69.874
Changes entered into income statement	1.755
At 30 September 2008	71.628

Analysis of total provisions:	**30/9 2008**	**30/9 2007**
Non-current	71.628	69.874

17. Earnings per share

Earnings per share is calculated by dividing the net (loss) profit attributable to shareholders by the weighted average number of outstanding shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares.

	1/10 07 - 30/9 08	**1/10 06 - 30/9 07**
Net (loss) profit attributable to shareholders	(365.928)	282.025
Weighted average number of outstanding shares in issue (thousands)	86.000	86.000
Earnings per share, basic and diluted	(4,25)	3,28

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18. Insurance

The assets of the Company are insured for ISK 4.710 million and a cover for loss of revenue up to ISK 1.551 million has been arranged, the same amounts apply for insurance for terror regarding assets and cover for loss of revenue. A General Liability Insurance cover of ISK 1.716 million is in place.

19. Dividends per share

The dividend paid in 2008 was ISK 32,4 million (ISK 0.38 per share). The dividend paid in 2007 was ISK 31.5 million (ISK 0.37 per share).

20. Cash generated from operations

	1/10 07 - 30/9 08	**1/10 06 - 30/9 07**
Net (loss) profit	(365.928)	282.025
Adjustments for:		
Tax	(80.326)	61.908
Depreciation	401.344	229.499
Interest expense and foreign exchange rate differences	672.072	231.299
Changes in working capital:		
Trade receivables and prepayments	118	13.105
Payables	14.072	(9.043)
Provisions due to transponders	1.755	11.136
Cash generated from operations	643.106	819.929

21. Related-party transactions

The company is controlled by Eignarhaldsfélagið Spölur hf. The ultimate controlling parties of Eignarhaldsfélagið Spölur hf. are Associated Icelandic Ports, State Treasury, Icelandic Alloys, Icelandic Road Administration and Hvalfjardarsveit. Each hold more than 10% of the share capital in Eignarhaldsfélagið Spölur hf.

The following transactions were carried out with related parties:

(a) Toll	**1/10 07 - 30/9 08**	**1/10 06 - 30/9 07**
Toll:		
– Members of the board and managing director	189	327
– Owners in its parent	4.908	3.424
	5.097	3.751

Toll are sold based on the price lists in force and terms that would be available to third parties.

(b) Key management compensation

Salaries	15.467	13.748

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(c) Year-end balances arising from sales of toll

Receivables from related parties (note 11):		
– Owner in its parent	332	286

The receivables from related parties arise mainly from sale transactions and are due 10 days after the date of sales.

(d) Loans to parent company

Loans to parent company:	
At 1 October 2006	26.345
Loans advanced during year	171.351
Loan repayments received	(28.351)
At 30 September 2007	169.345
At 1 October 2007	169.345
Loans advanced during year	19.039
Loan repayments received	(29.201)
Interest and indexation charged	19.965
At 30 September 2008	179.149

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