

# **Eignarhaldsfélagið Farice ehf.**

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**Condensed Consolidated**

**Interim Financial Statements**

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**1.1.-30.06.10**

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Eignarhaldsfélagið Farice ehf.  
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kt. 511203-2950

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Approved on board meeting 24 August 2010

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# Independent Auditor's Report

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

We have reviewed the accompanying condensed consolidated statement of financial position of Eignarhaldsfélagið Farice ehf. as at June 30, 2010, the condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and fair presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed 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 condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

## Emphasis of matter

We draw attention to the discussion in the endorsement by the board of directors and the CEO and the notes to the financial statements regarding the financial restructuring and financial position of the Company. The Company was in breach of some of its loan agreements at the end of the period and accordingly, those loans are classified as short term loans in the balance sheet. The management has been working on a restructuring plan and expect to finish negotiating with the creditors in the third quarter of 2010. If restructuring of the Company cannot be completed successfully then the Company will not be able to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements are however prepared on a going concern basis.

Reykjavík, 24 August 2010.

**KPMG hf.**

Simon H. Gunnarsson  
Sigríður H. Sveinssd.

## Endorsement of the Board of Directors and the CEO

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It is the opinion of the Board of Directors and the Managing Director that these Condensed Consolidated Interim Financial Statements of Eignarhaldsfélagið Farice ehf. present the necessary information to show the financial position of Eignarhaldsfélagið Farice ehf. at period-end, the operational results for the period and the financial development during the period 1 January to 30 June 2010. Eignarhaldsfélagið Farice ehf Condensed Interim Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Company's net loss from operations amounted to EUR 14.116.931. The Board recommends that the loss will be carried forward. According to the statement of financial position the Company's assets amount to EUR 128.266.147, the period's end book value of equity is EUR - 2.339.932 and the Company's equity ratio is - 1,82%.

Work related to the financial restructuring of the Company and its subsidiary has been ongoing during the period and is scheduled to be finished in Q3 2010. In June 2010, the Boards of Directors of the Company and its subsidiary, Farice hf., approved a merger plan. If the plan will be approved by the shareholders, the two companies will be merged, effective 1 January 2010.

The Board of Directors and CEO of Eignarhaldsfélagið Farice ehf hereby confirm the Consolidated Interim Financial Statements of Eignarhaldsfélagið Farice ehf for the period 1 January to 30 June 2010 with their signatures.

Kópavogur 24 August, 2010

### Board of directors



Karl Alvarsson



Friðrik Friðriksson



Kjartan Briem



Páll Ásgrímsson



Þorgerður Marinósdóttir



Páll Erlend

### Managing director



Guðmundur Gunnarsson

# Consolidated statement of comprehensive income

For the six months ended 30 June

	Notes	2010	2009
Operating revenue .....	3	3.292.185	3.526.811
Operating expenses .....		(2.087.592)	(1.361.941)
Administrative expenses .....		(589.350)	(370.636)
Depreciation .....		(3.907.481)	(1.859.027)
<b>Operating loss</b>		<b>(3.292.238)</b>	<b>(64.793)</b>
Financial income .....	5	2.790	312.216
Financial expenses .....	5	(10.827.483)	(943.391)
Net loss before tax .....		(14.116.931)	(695.967)
Income tax .....		0	(47.814)
<b>Total comprehensive loss</b>		<b>(14.116.931)</b>	<b>(743.781)</b>
Attributable to:			
Equity holders of the parent .....		(13.512.773)	(593.999)
Minority interest .....		(604.158)	(149.782)
		<u>(14.116.931)</u>	<u>(743.781)</u>
Basic and diluted net loss per share .....		(0,46)	(0,02)

During the period of 2010 and 2009 no other items were recognised among comprehensive loss.

# Consolidated statement of financial position

Assets	Notes	30.6.2010	31.12.2009
<b>Non-current assets</b>			
Property and equipment .....		126.373.113	130.280.594
Prepaid lease .....		202.481	224.971
		<u>126.575.594</u>	<u>130.505.565</u>
<b>Current assets</b>			
Accounts receivable .....		595.981	579.015
Other receivables .....		524.399	530.542
Bank deposits and cash .....		570.173	258.277
		<u>1.690.553</u>	<u>1.367.834</u>
<b>Total assets</b>		<u><u>128.266.147</u></u>	<u><u>131.873.399</u></u>

# June 30, 2010

<b>Equity and liabilities</b>	<b>Notes</b>	<b>30.6.2010</b>	<b>31.12.2009</b>
<b>Equity</b>			
Share capital .....	6	30.886.405	30.886.405
Loss carry-forward .....		(33.792.214)	(20.279.441)
Equity attributable to equity holders of the parent		<u>(2.905.809)</u>	<u>10.606.964</u>
Minority interest .....		565.875	1.170.033
Total equity		<u>(2.339.934)</u>	<u>11.776.997</u>
<b>Non-current liabilities</b>			
Non-current liabilities .....	7	<u>33.773.645</u>	<u>28.557.702</u>
<b>Current liabilities</b>			
Short-term liabilities .....	8	46.448.544	44.811.217
Current and due maturities .....	7	32.991.303	32.479.253
Accounts payable .....		6.744.598	6.995.247
Interest rate swaps .....		1.143.945	1.017.499
Other liabilities .....		9.504.046	6.235.484
		<u>96.832.436</u>	<u>91.538.700</u>
Total liabilities		<u>130.606.081</u>	<u>120.096.402</u>
<b>Total equity and liabilities</b>		<u><u>128.266.147</u></u>	<u><u>131.873.399</u></u>

# Consolidated statement of cash flows

For the six months ended 30 June

	2010	2009
<b>Cash flows from operating activities</b>		
Loss for the period .....	(14.116.931)	(743.781)
Adjustments for:		
Depreciation .....	3.907.481	1.861.686
Changes in current assets and liabilities .....	(319.150)	836.615
Net finance cost .....	10.824.694	631.174
Income tax expense .....	0	47.814
<b>Net cash provided by operating activities before interest</b>	<u>296.094</u>	<u>2.633.508</u>
Interest received .....	2.790	37.798
Paid interest expenses and exchange rate differences .....	(891.948)	(959.752)
<b>Net cash from operating activities</b>	<u>(593.064)</u>	<u>1.711.554</u>
<b>Investing activities</b>		
Investment in fixed assets .....	0	(29.484.780)
Market securities .....	0	(2.148.886)
Disposal of assets .....	0	4.719
	<u>0</u>	<u>(31.628.947)</u>
<b>Financing activities</b>		
Long-term borrowings .....	0	29.985.569
Short-term borrowings .....	863.072	3.274.398
Long-term liabilities repaid .....	0	(2.720.894)
	<u>863.072</u>	<u>30.539.073</u>
Increase in cash and cash equivalents .....	270.008	621.680
Effects of foreign exchange adjustments .....	41.888	(1.161.955)
Cash and cash equivalents at 1 January .....	258.277	655.022
<b>Cash and cash equivalents at 30 June</b> .....	<u><u>570.173</u></u>	<u><u>114.747</u></u>



## Condensed statement of changes in equity

### For the six months ended 30 June 2009

	Share capital	Loss carry forward	Equity holders of the parent	Minority	Total equity
Balance at January 1, 2009.....	30.886.405	(6.208.001)	24.678.403	1.731.543	26.409.947
Total comprehensive income.....	0	(593.999)	(593.999)	(149.782)	(743.781)
Balance at 30 June, 2009.....	30.886.405	(6.802.000)	24.084.404	1.581.761	25.666.166

### For the six months ended 30 June 2010

Balance at 1 January 2010.....	30.886.405	(20.279.441)	10.606.964	1.170.033	11.776.997
Total comprehensive income .....		(13.512.773)	(13.512.773)	(604.158)	(14.116.931)
Balance at 30 June 2010.....	30.886.405	(33.792.214)	(2.905.809)	565.875	(2.339.934)

# Condensed Notes to Financial Statements

## 1. Reporting entity

Eignarhaldsfélagið Farice ehf. is a limited company incorporated in Iceland. The principal activities of the Company is to insure safe telecommunications between Iceland and its neighbour countries. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2010 comprise the Company and its subsidiary Farice hf. (together referred to as the "Group")

The Company has operations in Iceland, Faroe Islands, Denmark and United Kingdom. The income and expenses originate in Iceland and neighbour countries.

## 2. Significant accounting policies

### Statement of compliance

These condensed consolidated interrim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements as at and for the year ended 31 December 2009.

These condensed interim financial statements were approved by the Board of Directors on 24 August 2010.

The accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended 31 December 2009.

### Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual result may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 december 2009.

## 3. Revenue

Net sales are specified as follows:

	30.6.2010	30.6.2009
Lease of bandwith - Farice 1 and Danice .....	3.292.185	3.526.811
	<u>3.292.185</u>	<u>3.526.811</u>

## 4. Salaries

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

	30.6.2010	30.6.2009
Salaries.....	116.122	131.624
Pension fund.....	13.301	14.912
Salary-related expenses .....	21.542	18.602
Other employee expenses.....	0	(311)
	<u>150.965</u>	<u>164.827</u>
Average number of positions.....	3,0	3,0

# Condensed Notes to Financial Statements

## 5. Financial income / (expenses)

	30.6.2010	30.6.2009
Interest income.....	2.790	37.798
Exchange rate difference.....	0	274.418
	<u>2.790</u>	<u>312.216</u>
Interest expenses and borrowing costs.....	(4.749.327)	(3.992.265)
Exchange rate differences.....	(5.951.710)	0
Interest rate swaps.....	(126.446)	(361.356)
Capitalized interest expenses and borrowing costs.....	0	3.410.231
	<u>(10.827.483)</u>	<u>(943.390)</u>

## 6. Share capital and planned write down of shares

In June 2010, the Boards of Directors of the Company and its subsidiary, Farice hf., approved a merger plan. If the plan will be approved by the shareholders, the two companies will be merged, effective January 1, 2010. The minority shareholders of Farice hf. will receive share capital in the amount of EUR 1.170.034 in the merged company for their shares in Farice hf. In conjunction with the merger a write down of the share capital, amounting to EUR 20.279.441, is proposed to cover unsettled losses.

The post merger common stock is specified as follows:

	Shares	Nominal value
Total share capital January 1, 2010.....	30.886.405	30.886.405
Write-down of share capital.....	(20.279.441)	(20.279.441)
Shares to minority shareholders of Farice hf.....	1.170.034	1.170.034
Total share capital after the merger.....	<u>11.776.998</u>	<u>11.776.998</u>

Each share of one euro carries one vote.

## 7. Long term liabilities

	Currency	Nominal interest rate	Year of maturity	30.6.2010	31.12.2009
Secured bond issue, indexed.....	ISK	5,50%	2034	33.773.645	28.557.702
Secured bank loans.....	EUR	Libor+0,18-1,5%	2011-2015	23.652.083	23.652.083
Secured bank loans.....	EUR	Euribor+1,5%	2010	2.413.332	2.413.332
Finance lease liabilities.....	EUR	Libor+3,5%	2014	4.701.717	4.555.982
Finance lease liabilities.....	CHF	Libor+3,5%	2014	836.456	736.997
Finance lease liabilities.....	JPY	Libor+3,5%	2014	1.197.649	961.232
Finance lease liabilities.....	USD	Libor+3,5%	2014	190.066	159.627
				<u>66.764.948</u>	<u>61.036.955</u>
Current maturity.....				-32.991.303	-32.479.253
Long term liabilities total.....				<u>33.773.645</u>	<u>28.557.702</u>

Aggregated annual maturities are as follows

	30.6.2010	31.12.2009
Current and due maturities.....	32.991.303	32.479.253
2010-2011.....	382.429	0
2011-2012.....	796.697	372.902
2012-2013.....	841.118	776.850
2013-2014.....	888.016	820.165
2014-2015.....	937.528	865.894
later.....	29.927.857	25.721.891
	<u>66.764.948</u>	<u>61.036.955</u>

# Condensed Notes to Financial Statements

## 7. Long term liabilities - cont.

Guarantees on longterm liabilities:

	30.6.2010	Guarantee
Secured bond issue, indexed.....	33.773.645	Icelandic State
Secured bank loans A-term.....	9.400.000	Icelandic State
Secured bank loans B-term.....	9.400.000	Skipti hf
Secured bank loans C-term.....	4.700.000	Foroya Tele
Secured bank loans D-term.....	152.083	
Secured bank loans A-term.....	2.413.332	1st. Ranking security interest in all shares in Farice, IRU's rights in Cantat and account receivable in Eignarhaldsfélagið Farice
Finance lease liabilities.....	6.925.888	Leased equipment
	<u>66.764.948</u>	

According to IAS1, when an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach.

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.

At the end of mid-year 2010, the Company was in breach of some of its loan agreements and therefore the full amount of the relevant loans can be called in. Accordingly, these loans are classified as short term loans in the balance sheet. Failure to reach an agreement on new terms with the Company's creditors will result in insolvency.

The Company has been working on a restructuring plan for the Company. The plan entails standstill agreements signed with creditors of the Company, for the postponement of financial payments. This work is expected to be finished in the third quarter of 2010. The management is confident that the restructuring plan will be completed successfully, securing the future operations of the company.

In June 2010 the Icelandic Supreme Court ruled that loan agreements nominated in Icelandic krónur with repayment defined with reference to foreign currencies are unlawful. Based on this ruling uncertainty prevails concerning the legality of various loan agreements and other financial instruments that are tied to foreign currencies. Uncertainty also prevails on the interest calculation of the loan agreements deemed unlawful based on the ruling.

The presentation in the balance sheet of assets/liabilities that are tied to foreign currencies is based on the terms of the relevant loan agreements and financial instruments regarding foreign exchange references and interest rates. The effect of the possible ruling of illegality of the agreements and instruments has not been estimated.

## 8. Short-term liabilities

In the year 2008 the Company entered into a bridge loan agreement with Kaupthing bank and Landsvirkjun to finance the investments in Cantat and Danice. The outstanding amount of EUR 46,4 is included in the Company's current liabilities at the end of the year. The Company is negotiating a refinance on these loans. In 2009 and 2010 the company received a loan from the Icelandic State in order to fulfill interest payment on EFAR 09 bond offering.