Farice ehf.

Condensed Interim Financial Statements

1.1.-30.06.11

Farice ehf.
Smáratorgi 3
201 Kópavogur
Reg no. 511203-2950

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Approved on board meeting 31 August 2011.

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Independent Auditor's Review Report

To the Board of Directors and Shareholders of Farice ehf.

We have reviewed the accompanying condensed statement of financial position of Farice ehf. as of 30 June 2011 and the related condenced statement of comprehensive income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and presentation of this condenced interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condenced 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 condenced 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 regarding the importance of increased revenue from the data center industry for the future prospects of the Company. If future revenue fail to increase in line with budgets there is a risk that 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 statement are however prepared on a going concern basis.

Reykjavík, 31 August 2011.

KPMG ehf.

Símon Á. Gunnarsson

Sigríður H. Sveinsd.

Report by the Board of Directors and CEO

It is the opinion of the Board of Directors and the Managing Director that these Condensed Interim Fimancial Statements of Farice ehf. present the necessary information to show the financial position of Farice ehf. at period-end, the operational results for the period and the financial development during the period January 1 to June 30, 2011. Farice ehf Interim Financial Statements are prepared in accordance with International Accounting Standards (IFRS) as adopted by the European Union.

The Company's net loss from operations amounted to EUR 3.685.181. The Board recommends that the loss will be carried forward. According to the Balance Sheet the Company's assets amount to EUR 123.455.878, the period's end book value of equity is EUR 54.693.022 and the Company's equity ratio is 44,3%.

At shareholders meetings in March and May 2011 the Company's shareholders decided to increase the Company's equity by EUR 8 million. Two shareholders have subscribed for the increased equity and payment will be made on 2 September 2011.

Going concern

The new financial structure of the company is designed to support the sustainability and growth of the Company in years to come. The agreements the Company has with its customers in the public telecommunications sector and the current and future agreements with the data center industry are the two main sources of revenue for the Company. Although the annual increase in international bandwidth demand from the public telecommunication sector is very high, the Company´s future prospects are very much depending on the data center industry in Iceland, which is growing. As to date revenues are in line with the annual budget. The debt repayment structure renegotiated with the Company´s creditors also plays an important part in the Company´s future.

The Board of Directors and CEO of Farice ehf hereby confirm the Condensed Interim Financial Statements of Farice ehf for the period 1 January to 30 June 2011 with their signatures.

Kópavogur, 31 August 2011

Board of directors

Karl Alvarsson, Chairman

Egill Tryggvason

Kristján Gunnarsson

Pétur Richter

Magnús Bjarnason

Chief Executive Officer

Guðmundur Gunnarsson

Statement of comprehensive income

For the six months ended 30 June

	Notes	2011	2010
Operating revenue	3	3.451.111	3.292.185
Operating expenses		(2.192.305)	(2.087.592)
Administrative expenses	4	(608.137)	(589.350)
Depreciation		(3.880.396)	(3.907.481)
Operating (loss)		(3.229.727)	(3.292.238)
Financial income	5	15.254	2.790
Financial expenses	5	(470.709)	(10.827.483)
Net finance cost		(455.454)	(10.824.693)
Total comprehensive loss		(3.685.181)	(14.116.931)
Basic and diluted net loss per share		(0,05)	(0,83)

The notes on pages 9-11 are an integral part of these Interim Financial Statements

Statement of financial position

Assets	Notes	30.6.2011	31.12.2010
Non-current assets			
Properties and equipments		119.044.694	122.639.425
Prepaid expenses		2.124.591	2.169.213
Prepaid lease		157.503	179.991
		121.326.788	124.988.629
Current assets			
Accounts receivable		146.543	106.797
Other receivables		415.216	557.446
Bank deposits and cash		1.567.331	2.749.032
		2.129.090	3.413.276
Total assets		123.455.878	128.401.905

The notes on pages 9-11 are an integral part of these Interim Financial Statements

June 30, 2011

Equity and liabilities	Notes	30.6.2011	31.12.2010
Equity			
Share capital		75.492.513	75.492.513
Loss carry-forward		(20.799.491)	(17.114.313)
Total Equity		54.693.022	58.378.200
Non-current liabilities			
Non-current liabilities	6	32.264.942	33.681.062
Current liabilities			
Current and due maturities	6	33.873.767	33.526.820
Accounts payable		948.701	1.240.377
Other liabilities		1.675.447	1.575.446
		36.497.915	36.342.643
Total liabilities		68.762.856	70.023.705
Total equity and liabilities		123.455.878	128.401.905

The notes on pages 9-11 are an integral part of these Interim Financial Statements

Statement of Cash Flows

For the six months ended 30 June

	2011	2010
Cash flows from operating activities		
Loss for the period	(3.685.181)	(14.116.931)
Adjustments for:		
Depreciation	3.880.396	3.907.481
Changes in current assets and liabilities	356.771	(319.150)
Net finance cost	455.454	10.824.694
Net cash provided by operating activities before interest	1.007.440	296.094
Interest received	15.254	2.790
Paid interest expenses and exchange rate differences	(1.541.436)	(891.948)
Net cash (to) operating activities	(518.741)	(593.064)
Investing activities		
Investment in fixed assets	(108.663)	0
	(108.663)	0
Financing activities		
Short-term borrowings	0	863.072
Short-term liabilities repaid	(555.822)	0
	(555.822)	863.072
Increase (decrease) in cash and cash equivalents	(1.183.226)	270.008
Effects of foreign exchange adjustments	1.525	41.888
Cash and cash equivalents at 1 January	2.749.032	258.277
Cash and cash equivalents at 30 June	1.567.331	570.173

The notes on pages 9-11 are an integral part of these Interim Financial Statements

Statement of changes in Equity

For the six months ended 30 June 2010

	Share capital	Loss carry forward	Total	Non-controlling interest	Total equity
Balance at 1 January, 2010	30.886.405	(20.279.441)	10.606.964	1.170.033	11.776.998
Total comprehensive (loss)	0	(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	(2.339.933)

For the six months ended 30 June 2011

	Share capital	Loss carry forward	Total	Non-controlling interest	Total equity
Balance at 1 January 2011	75.492.513	(17.114.313)	58.378.200	0	58.378.200
Total comprehensive (loss)	0	(3.685.181)	(3.685.181)	0	(3.685.181)
Balance at 31 December, 2010	75.492.513	(20.799.491)	54.693.022	0	54.693.022

Notes to Financial Statements

1. Reporting entity

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

The subsidiary of Farice hf. was merged into Farice ehf., as of 1 January 2010.

2. Significant accounting policies

Statement of compliance

These condensed interim 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 financial statements as and for the year ended 31 December 2010.

These condensed interim financial statements were approved by the Board of Directors on 31 August 2011.

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its financial statements as at and for the year ended 31 December 2010.

Estimates

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

In preparing these condensed 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 financial statements as at and for the year ended 31 December 2010.

3. Revenue

Net sales are specified as follows:

	30.6.2011	30.6.2010
Lease of bandwidth - Farice 1 and Danice	3.451.111	3.292.185
	3.451.111	3.292.185

4. Salaries

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

	30.6.2011	30.6.2010
Salaries	111.574	116.122
Pension fund	14.223	13.301
Salary-related expenses	19.427	21.542
	145.224	150.965
Average number of positions	3,0	3,0

5. Financial income / (expenses)

	30.6.2011	30.6.2010
Interest income	15.254	2.790
	15.254	2.790
Interest expenses and borrowing costs	(1.460.689)	(4.749.327)
Exchange rate differences	989.980	(5.951.710)
Interest rate swaps	0	(126.446)
	(470.709)	(10.827.483)

6. Long term liabilities

	Currency	Nominal interest rate	Year of maturity	30.6.2011	31.12.2010
Secured bond issue, indexed	ISK	5,50%	2034	33.026.939	34.461.026
Secured bank loans	EUR	Libor+0,18-1,5	2011-2015	20.630.112	20.630.112
Secured bank loans	EUR	Euribor+1,5	2011	2.413.332	2.413.332
Finance lease liabilites	EUR	Libor+3,5%	2014	7.815.814	7.521.563
Finance lease liabilites	CHF	Libor+3,5%	2014	942.214	857.559
Finance lease liabilites	JPY	Libor+3,5%	2014	1.144.749	1.155.574
Finance lease liabilites	USD	Libor+3,5%	2014	165.549	168.717
				66.138.709	67.207.883
Current and due maturity				-33.873.767	-33.526.820
Long term liabilities total				32.264.942	33.681.063

Aggregated annual maturities are as follows

	30.6.2011	31.12.2010
Due maturities	33.111.772	33.136.838
2011-2012	761.995	389.982
2012-2013	804.481	812.432
2013-2014	849.335	857.730
2014-2015	896.691	905.554
2015-2016	946.687	956.045
later	28.767.748	30.149.302
	66.138.709	67.207.883

Guarantees on longterm liabilities:

	30.6.2011	Guarantee
Secured bond issue, indexed	33.026.939	Icelandic State
Secured bank loans A-term	9.400.000	Icelandic State
Secured bank loans B-term	6.378.029	
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	
Finance lease liabilities	10.068.326	Leased equipment
	66.138.709	

The bank loans are also guaranteed with 1st. ranking securities in the subseacables, landing stations and accounts receivables. The Icelandic State has a 1st ranking securites in the Danice cable system as collateral against its guarantee of the secured bond.

At period end the Company is in breach with provisions in some of its loan agreements. 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.

7. Restructuring of long term liabilities and new equity.

In December 2010 the company signed new term loan agreements with its lenders and finished the financial restructuring. The Agreements included some conditions precedent which were not all fulfilled at period-end 2011. Therefore the financial statement present the old loan structure as the new agreements are not effective at 30 June 2011.

The loans will have a new margin ranging from LIBOR + 0,8%-2,12% and maturities ranging from 2017 to 2019. The finance lease liabilities will have a new margin of LIBOR+4,12% and maturity in 2018.

The terms of 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.

In the beginning of September the Company will receive EUR 8 million in cash from its shareholders as new equity. The funds will be used to pay up EUR 6 million in long term loans and due interest. The remaining cash is to strengthen the Company's cash position. The equity ratio changes from 44,3% to 50,8%.

8. Approval of Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on 31 August, 2011