

Farice ehf.
Condensed Interim Financial Statements
1 January - 30 June 2013

Farice ehf.
Smáratorgi 3
201 Kópavogur

Reg. no. 511203-2950

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Report of the Board of Directors and the CEO

Farice ehf. is a transmission and data service provider. The company operates two submarine cables between Iceland and Europe and connects Iceland to the world with backhaul agreements to other networks in major connecting points in Europe.

The condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for interim financial statements (IAS 34).

According to the statement of comprehensive income the operating revenue amounted to EUR 6,1 million and the EBITDA EUR 3,3 million. The comprehensive loss for the period amounted to EUR 4,5 million. According to the statement of financial position the company's total assets amounted to EUR 108,4 million and the equity amounted to EUR 49,7 million, an equity ratio of 45,9%.

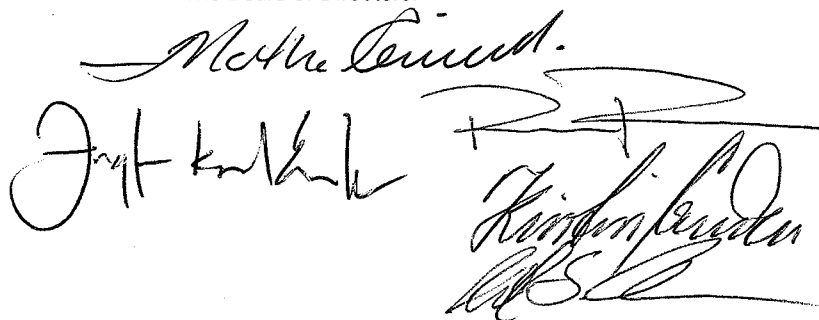
Statement by the Board of Directors and the CEO

To the best of our knowledge it is our opinion that the condensed interim financial statements give a true and fair view of the financial performance of the Company for the six month period ended 30 June 2013, its assets, liabilities and financial position as at 30 June 2013 and its cash flow for the period then ended in accordance with International Financial Reporting Standards (IFRSs) for interim financial statements (IAS 34).

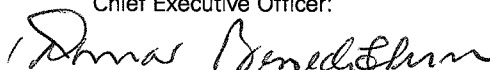
The Board of Directors and CEO of Farice ehf., hereby confirm the Financial Statements of Farice ehf., for the period 1 January to 30 June 2013 with their signatures.

Kópavogur, 21 August 2013

The Board of Directors:

The image shows three handwritten signatures in black ink. The first signature is at the top left, the second is below it to the left, and the third is to the right of the second signature. The signatures are stylized and cursive.

Chief Executive Officer:

The image shows a single handwritten signature in black ink, which is the signature of the Chief Executive Officer. It is written in a cursive style.

Independent Auditors' 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 2013 and the related condensed statement of comprehensive income, changes in equity and cash flows for the six month period then ended and a summary of significant accounting policies and other explanatory information. Management is responsible for the preparation and presentation of this condensed 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

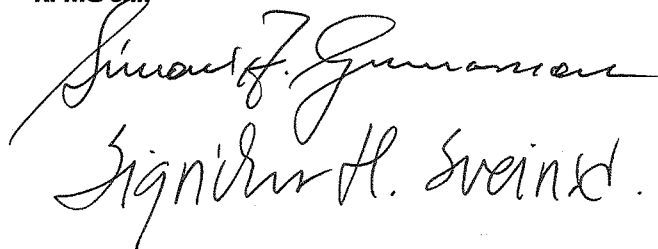
We conducted our review in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial 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".

Reykjavík, 21 August 2013

KPMG ehf.



Two handwritten signatures in cursive script. The first signature is larger and more prominent, while the second is smaller and positioned below the first.

Statement of Comprehensive Income for six months ended 30 June 2013

	Notes	2013	2012
Sale of bandwidth		4.583.724	3.960.456
Income from Public Service Contract		1.471.529	1.351.708
		<u>6.055.253</u>	<u>5.312.164</u>
Operating expenses		2.334.004	2.535.355
Administrative expenses		414.905	394.443
		<u>2.748.909</u>	<u>2.929.798</u>
Profit before depreciation and finance items		3.306.344	2.382.366
Depreciation		(3.783.551)	(3.909.666)
Operating loss		(477.207)	(1.527.300)
Finance income		772	359
Interest- and indexation expenses	4	(2.193.698)	(2.952.295)
Exchange rate differences		(1.811.847)	(279.245)
Net finance cost		<u>(4.004.773)</u>	<u>(3.231.181)</u>
Total comprehensive loss for the period		<u>(4.481.980)</u>	<u>(4.758.481)</u>

The notes on pages 9 to 11 are an integral part of these financial statements.

Statement of Financial Position as at 30 June 2013

	Notes	30.6.2013	31.12.2012
Assets			
Operating assets		105.046.297	107.944.314
Prepaid expenses		1.859.453	1.904.080
Prepaid lease		78.795	90.039
Non-current assets		<u>106.984.545</u>	<u>109.938.433</u>
Trade receivables		350.468	465.866
Other receivables		419.459	216.500
Cash and cash equivalents		652.114	300.839
Current assets		<u>1.422.041</u>	<u>983.205</u>
Total assets		<u>108.406.586</u>	<u>110.921.638</u>
Equity			
Share capital	5	53.372.575	53.372.575
Additional paid in capital	5	2.550.756	0
Accumulated deficit		(6.175.507)	(1.693.527)
Total equity		<u>49.747.824</u>	<u>51.679.048</u>
Liabilities			
Loans and borrowings	6	53.775.786	37.238.036
Loans and borrowings	6	3.399.356	20.873.712
Trade payables		783.989	394.415
Other liabilities		699.631	736.427
Current liabilities		<u>4.882.976</u>	<u>22.004.554</u>
Total liabilities		<u>58.658.762</u>	<u>59.242.590</u>
Total equity and liabilities		<u>108.406.586</u>	<u>110.921.638</u>

The notes on pages 9 to 11 are an integral part of these financial statements.

Statement of Changes in Equity for the six months ended 30 June 2013

	Notes	Share capital	Additional paid in capital	Accumulated deficit	Total equity
Changes in equity for six months ended 30 June 2012					
Equity as at 1 January 2012		83.492.513	0	(25.666.934)	57.825.579
Total comprehensive loss for the period				(4.758.481)	(4.758.481)
Equity as at 30 June 2012		<u>83.492.513</u>	<u>0</u>	<u>(30.425.415)</u>	<u>53.067.098</u>
Changes in equity for six months ended 30 June 2013					
Equity as at 1 January 2013		53.372.575	0	(1.693.527)	51.679.048
Additional paid in capital	5		2.550.756		2.550.756
Total comprehensive loss for the period				(4.481.980)	(4.481.980)
Equity as at 30 June 2013		<u>53.372.575</u>	<u>2.550.756</u>	<u>(6.175.507)</u>	<u>49.747.824</u>

The notes on pages 9 to 11 are an integral part of these financial statements.

Statement of Cash Flows for the six months ended 30 June 2013

	Notes	2013	2012
Cash flow from operating activities			
Loss for the period .....	(	4.481.980)	(4.758.481)
Adjustments for:			
Depreciation		3.783.551	3.909.666
Net finance cost		4.004.773	3.231.181
		<u>3.306.344</u>	<u>2.382.366</u>
Changes in current assets and liabilities		356.604	437.762
Cash generated from operating activities before interest		<u>3.662.948</u>	<u>2.820.128</u>
Interest received		772	359
Interest paid .....	(	1.396.810)	(1.552.900)
Net cash from operating activities		<u>2.266.910</u>	<u>1.267.587</u>
Cash flows from investing activities			
Acquisition of property and equipment .....	(	885.534)	(51.576)
Net cash used in investing activities	(	<u>885.534</u>)	<u>(51.576)</u>
Cash flows from financing activities			
Additional paid in capital		650.000	0
Repayment of long-term loans .....	(	1.691.062)	(1.572.636)
Net cash used in financing activities	(	<u>1.041.062</u>)	<u>(1.572.636)</u>
Net increase (decrease) in cash and cash equivalents		340.314	(356.625)
Cash and cash equivalents at 1 January		300.839	408.282
Effect of exchange rate fluctuations on cash held		10.961	(11.245)
Cash and cash equivalents at 30 June		<u>652.114</u>	<u>40.412</u>
Investing and financing activities not affecting cash flow			
Investments in fixed assets		0	(40.409)
Unpaid investment		0	40.409
Repayment of long-term loans .....	(	1.900.756)	0
Additional paid in capital		1.900.756	0

The notes on pages 9 to 11 are an integral part of these financial statements.

Notes

1. Reporting entity

Farice ehf. is a limited liability company domiciled in Iceland. The Company's registered office address is Smáratorg 3, Kópavogur, Iceland. The principal activities of the Company are to insure safe telecommunications between Iceland and its neighbour countries.

The Company is in majority ownership of the Icelandic State.

The company has operations in Iceland, the Faroe Islands, Denmark and the United Kingdom. The income and expenses originate in Iceland and neighbouring countries.

2. Basis of preparation

a. Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. They do not include all the information required for a complete set of consolidated annual financial statements and should be read in conjunction with the financial statements of the Company as at and for the year ended 31 December 2012.

The condensed interim financial statements were authorized for issue by the Board of Directors on 21 August 2013.

b. Going concern

Management has evaluated whether the Company is a going concern. It is the opinion of the management that the Company's ability to meet its obligations in the foreseeable future has been ensured. Therefore, the financial statements are presented based on the assumption that the Company is a going concern.

c. Use of estimates and judgements

In preparing these interim financial statements, Management makes judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 that applied to the financial statements as at and for the year ended 31 December 2012.

3. Significant accounting policies

Except as described below the accounting policies applied in these condensed interim financial statements are the same as those applied in the Company's financial statements as at and for the year ended 31 December 2012.

a. Functional and presentation currency

These interim financial statements are presented in euro (EUR), which is the Company's functional currency.

b. Changes in accounting policies

The Company has adopted all new standards and amendments to standards, with a date of initial application of 1 January 2013, that have been approved by the EU. Those standards have not had effects on these condensed interim financial statements.

4. Finance income and finance expenses

Interest- and indexation expenses are specified as follows:

	30.6.2013	30.6.2012
Interest expenses and borrowing costs	1.377.482	1.785.332
Indexation charge	816.216	1.166.963
Total finance expenses	<u>2.193.698</u>	<u>2.952.295</u>

Notes, contd.:

5. Equity

a. Share capital

Total share capital is EUR 54.234.910. The nominal value of treasury shares is EUR 862.335, the nominal value of outstanding shares therefore amounts to EUR 53.372.575 at 30 June 2013. One vote is attached to each share of one EUR.

b. Additional paid in capital

Two shareholders provided additional paid in capital to the company in January 2013, in the form of subordinated loans. According to the terms of the loan agreements the loans will be repaid by issuing new share capital in Farice ehf., at 31 December 2016, unless Farice decides to pay the loans with cash or other financial assets. The loan agreements therefore fulfill the conditions in IAS 32 to be presented as equity in the statement of financial position.

The total outstanding amount of the loans at 30 June 2013 is EUR 2.550.756, but it can go up to EUR 5.000.000. The total amount, as well as 10% interest per annum, will be converted to new shares in Farice in a new class B. The conversion rate will be one share in class B for each one EUR of the loans.

6. Loans and borrowings

Terms and conditions of outstanding loans were as follows:

	30.6.2013				31.12.2012	
	Curr.	Year of maturity	Interest rate	Carrying amount	Interest rate	Carrying amount
Secured bond issue.....	ISK	2034	5,5% + indexed	35.412.624	5,5% + indexed	33.195.835
Secured bank loans.....	EUR	2017-2019	Euribor+0,8-2,12%	13.878.507	Euribor+0,8-2,12%	14.372.311
Secured loan.....	EUR	2018	Euribor + 4,5%	2.493.266	Euribor + 4,5%	2.685.886
Finance lease liabilities.....	EUR	2018	Libor + 4,12%	3.723.457	Libor + 4,12%	4.024.588
Finance lease liabilities.....	CHF	2018	Libor + 4,12%	719.628	Libor + 4,12%	792.403
Finance lease liabilities.....	JPY	2018	Libor + 4,12%	804.326	Libor + 4,12%	986.269
Finance lease liabilities.....	USD	2018	Libor + 4,12%	143.334	Libor + 4,12%	152.799
Convertible notes.....	ISK	2013		0	10,00%	1.901.657
				57.175.142		58.111.748
Current and due maturities.....				(3.399.356)		(20.873.712)
Total long term liabilities.....				53.775.786		37.238.036

Maturities are specified as follows over the next years:

	Contractual	Due to breach
	maturities	in covenants
	30.6.2013	31.12.2012
Repayments in 1 year or less	3.399.356	20.873.712
Repayments in 1 - 2 years	3.517.917	2.009.142
Repayments in 2 - 3 years	3.642.316	2.109.164
Repayments in 3 - 4 years	5.659.700	2.214.157
Repayments in 4 - 5 years	6.646.430	2.324.379
Subsequent	34.309.423	28.581.194
	57.175.142	58.111.748

Notes, contd.:

6. Loans and borrowings contd.:

Current and due maturity is specified as follows:	30.6.2013	31.12.2012
Contractual repayments.....	3.399.356	3.296.566
Short term convertible notes.....	0	1.901.657
Classified as current due to breach in covenants.....	0	15.675.489
	<u>3.399.356</u>	<u>20.873.712</u>

Guarantees on longterm liabilities:	30.6.2013	Guarantor/Guarantee
Secured bond issue, indexed.....	35.412.624	Icelandic State
Secured bank loans A-term.....	9.434.275	Icelandic State
Secured bank loans B-term.....	4.027.550	Skipti hf.
Secured bank loans.....	416.682	Trade receivable
Secured loan.....	2.493.266	Landing equipment
Finance lease liabilities.....	5.390.745	Leased equipment
	<u>57.175.142</u>	

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

The terms of loan facilities include various provisions that limit certain actions by the company without prior consulting with the lender. In addition the loan facilities include certain financial covenants. At the reporting date the company does not fulfill covenants in loan agreements amounting to EUR 13,9 million. The company has received waivers from those creditors. The next compliance test for loans amounting to EUR 11,5 will be based on the financial statements for the year 2013 and the compliance test for loans amounting to EUR 2,4 million will be based on operations in 2014.

7. Related parties

The Company's related parties are shareholders, Board members, the CEO, and close family members of the aforementioned parties. No related parties purchased service from the company in 2013 and 2012 and Farice did not buy any goods or service from related parties in 2013 and 2012.

As discussed in note 5 two shareholders provided the company with additional capital in the form of subordinated loans during the year 2013. The total outstanding amount of the loans at 30 June 2013 is EUR 2.550.756. The subordinated loans were used to pay convertible notes from the same shareholders.

The company has a public service agreement with the Telecommunication Fund that belongs to one shareholder. According to the agreement the Telecommunication Fund undertakes to compensate Farice for discharging public service in as much as revenue is not sufficient to cover the cost of providing the public service taking into account a reasonable rate of return. The contract period is five year, starting on 1 January 2012.