

Farice ehf.
Condensed Interim Financial Statements
1 January - 30 June 2016

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 plays an important role in Iceland's infrastructure to the greater good to public and economic life in Iceland. 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 6,7 million compared to EUR 7,5 million in prior year but the decrease in revenue can be explained by price reductions in the domestic market. The EBIDTA for the period amounted to EUR 3,3 million and the comprehensive loss for the period amounted to EUR 3,4 million. According to the statement of financial position the company's total assets amounted to EUR 86,5 million and the equity amounted to EUR 33,7 million, an equity ratio of 39%. In the period the company received significant prepaid revenues which management used to pay down long-term liabilities.

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 2016, its assets, liabilities and financial position as at 30 June 2016 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 2016 with their signatures.

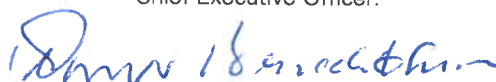
Kópavogur, 17 August 2016

The Board of Directors:



Handwritten signatures of the Board of Directors and CEO. The signatures are in blue ink and include names such as Steinn Leirsson, Kristinn Þorsteinsson, Sölvi Sölvason, Jón Þor Einarsson, and Alfreð Þórhallsson.

Chief Executive Officer:



Handwritten signature of the Chief Executive Officer, Alfreð Þórhallsson.

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 at June 30, 2016, the condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information. The Board of Directors and CEO are 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, 17 August 2016

KPMG ehf.

Arni Claessen

Statement of Comprehensive Income for six months ended 30 June 2016

	Notes	2016 1.1 - 30.6	2015 1.1 - 30.6
Sale of bandwidth		5.332.966	6.109.279
Income from Public Service Contract		1.376.626	1.346.566
		<u>6.709.592</u>	<u>7.455.844</u>
Operating expenses		2.880.101	2.770.609
Administrative expenses		470.534	408.907
		<u>3.350.635</u>	<u>3.179.516</u>
Profit before depreciation and finance items		3.358.957	4.276.328
Depreciation		(3.593.402)	(3.660.741)
Operating (loss)/profit		(234.445)	615.587
Finance income		16.508	964
Interest- and indexation expenses	4	(2.001.484)	(2.041.137)
Exchange rate differences		(1.182.567)	(1.905.215)
Net finance cost		<u>(3.167.543)</u>	<u>(3.945.389)</u>
Total comprehensive loss for the period		<u>(3.401.988)</u>	<u>(3.329.802)</u>

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

Statement of Financial Position as at 30 June 2016

	Notes	30.6.2016	31.12.2015
Assets			
Operating assets		83.673.711	87.267.113
Prepaid expenses		1.591.690	1.636.316
Non-current assets		<u>85.265.401</u>	<u>88.903.429</u>
Trade receivables		320.852	358.142
Other receivables		589.416	268.891
Cash and cash equivalents		364.263	802.938
Current assets		<u>1.274.531</u>	<u>1.429.971</u>
Total assets		<u><u>86.539.932</u></u>	<u><u>90.333.400</u></u>
Equity			
Share capital		53.372.575	53.372.575
Other paid in capital		2.549.061	2.549.061
Accumulated deficit		(22.228.063)	(18.826.075)
Total equity		<u>33.693.573</u>	<u>37.095.561</u>
Liabilities			
Loans and borrowings	5	42.689.311	42.397.605
Deferred income	3b	3.750.000	0
Non-current liabilities		<u>46.439.311</u>	<u>42.397.605</u>
Loans and borrowings	5	3.109.510	9.473.101
Trade payables		817.867	438.463
Deferred income and other liabilities	3b	2.479.671	928.670
Current liabilities		<u>6.407.048</u>	<u>10.840.234</u>
Total liabilities		<u>52.846.359</u>	<u>53.237.839</u>
Total equity and liabilities		<u><u>86.539.932</u></u>	<u><u>90.333.400</u></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 2016

	Notes	Share capital	Other paid in capital	Accumulated deficit	Total equity
Changes in equity for six months ended 30 June 2015					
Equity as at 1 January 2015		53.372.575	2.549.061	(12.742.479)	43.179.157
Total comprehensive loss for the period				(3.329.802)	(3.329.802)
Equity as at 30 June 2015		<u>53.372.575</u>	<u>2.549.061</u>	<u>(16.072.281)</u>	<u>39.849.355</u>
Changes in equity for six months ended 30 June 2016					
Equity as at 1 January 2016		53.372.575	2.549.061	(18.826.075)	37.095.561
Total comprehensive loss for the period				(3.401.988)	(3.401.988)
Equity as at 30 June 2016		<u>53.372.575</u>	<u>2.549.061</u>	<u>(22.228.063)</u>	<u>33.693.573</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 2016

	Notes	2016 1.1 - 30.6	2015 1.1 - 30.6
Cash flow from operating activities			
Loss for the period .....	(	3.401.988)	(3.329.802)
Adjustments for:			
Depreciation		3.593.402	3.660.741
Net finance cost		3.167.543	3.945.389
		<u>3.358.957</u>	<u>4.276.328</u>
Changes in operating assets and liabilities		5.579.016	271.950
Cash generated from operating activities before interest		<u>8.937.973</u>	<u>4.548.278</u>
Interest received		16.508	964
Interest paid .....	(	1.436.656)	(1.379.579)
Net cash from operating activities		<u>7.517.825</u>	<u>3.169.663</u>
Cash flows from investing activities			
Acquisition of property and equipment		0	(188.891)
Net cash used in investing activities		<u>0</u>	<u>(188.891)</u>
Cash flows from financing activities			
Repayment of long-term loans .....	(	7.956.500)	(2.569.584)
Net cash used in financing activities	(	<u>7.956.500)</u>	<u>(2.569.584)</u>
Net (decrease)/increase in cash and cash equivalents.....	(	438.675)	411.188
Cash and cash equivalents at 1 January		<u>802.938</u>	<u>355.816</u>
Cash and cash equivalents at 30 June.....		<u><u>364.263</u></u>	<u><u>767.004</u></u>

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 2015.

The condensed interim financial statements were authorized for issue by the Board of Directors on 17 August 2016.

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 2015.

3. Significant accounting policies

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 2015.

a. Functional and presentation currency

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

b. Revenues

Revenue from the sale of bandwidth is recognized in profit and loss based on recorded measurement of delivery during the period. Prepaid revenues are deferred and recognized in income statement based on delivery over the lifetime of the contract.

c. Changes in accounting policies

The Company has adopted all new standards and amendments to standards, with a date of initial application of 1 January 2016, that have been approved by the EU. Those standards have not had effects on these condensed interim financial statements.

Notes, contd.:

4. Finance income and finance expenses

Interest- and indexation expenses are specified as follows:

	30.6.2016	30.6.2015
Interest expenses and borrowing costs	1.436.534	1.393.796
Indexation charge	564.950	647.341
Total finance expenses	<u>2.001.484</u>	<u>2.041.137</u>

5. Loans and borrowings

Terms and conditions of outstanding loans were as follows:

	Curr.	Year of maturity	Interest rate	30.6.2016		31.12.2015	
				Carrying amount	Interest rate	Carrying amount	
Secured bond issue.....	ISK	2034	5,5% + indexed	40.692.190	5,5% + indexed	39.419.515	
Secured bank loans.....	EUR	2019	Euribor + 1,7%	1.886.856	Euribor+0,8-2,12%	8.434.276	
Secured loan.....	EUR	2018	Euribor + 4,5%	1.228.623	Euribor + 4,5%	1.449.975	
Finance lease liabilities.....	EUR	2018	Libor + 4,12%	1.337.052	Libor + 4,12%	1.740.983	
Finance lease liabilities.....	CHF	2018	Libor + 4,12%	313.600	Libor + 4,12%	379.775	
Finance lease liabilities.....	JPY	2018	Libor + 4,12%	278.946	Libor + 4,12%	366.572	
Finance lease liabilities.....	USD	2018	Libor + 4,12%	61.553	Libor + 4,12%	79.610	
				<u>45.798.820</u>		<u>51.870.706</u>	
Current and due maturities.....				(3.109.510)		(9.473.100)	
Total long term liabilities.....				<u>42.689.310</u>		<u>42.397.606</u>	

Maturities are specified as follows over the next years:

	30.6.2016
Repayments in 1 year or less	3.109.510
Repayments in 1 - 2 years	4.598.256
Repayments in 2 - 3 years	1.805.140
Repayments in 3 - 4 years	1.635.504
Repayments in 4 - 5 years	1.726.694
Subsequent	<u>33.497.841</u>
Total repayments	46.372.945
Capitalized borrowing cost	(574.125)
Total long term liabilities	<u>45.798.820</u>

Guarantees on longterm liabilities:

	30.6.2016	Guarantor/Guarantee
Secured bond issue, indexed.....	40.692.190	Icelandic State
Secured bank loans A-term.....	1.886.856	Icelandic State
Secured loan.....	1.228.623	Landing equipment
Finance lease liabilities.....	1.991.151	Leased equipment
	<u>45.798.820</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 which in some cases the company does not comply with. The company has received waivers on covenants from those creditors.

Notes, contd.:

6. 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 2016 and Farice did not buy any goods or service from related parties in 2016.

Two shareholders provided the company with additional capital in the form of subordinated loans during the year 2013 which are included in equity in accordance with IAS 32. The total outstanding amount of the loans at 30 June 2016 is EUR 2,5 million and the shareholders have also committed to provide additional funding amounting to EUR 2,5 million if required.

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 expires on 31. December 2018.