

Farice ehf.
Condensed Interim Financial Statements
1 January - 30 June 2017

Farice ehf.
Smáratorgi 3
201 Kópavogur

Reg. no. 511203-2950

Contents

	Page
Report of the Board of Directors and the CEO	3
Independent Auditors' Review Report	4
Statement of Comprehensive Income	5
Statement of Financial Position	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes	9

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 7,9 million compared to EUR 6,7 million in prior year. The EBITDA for the period amounted to EUR 4,2 million and the comprehensive loss for the period amounted to EUR 1,9 million. According to the statement of financial position the company's total assets amounted to EUR 79,7 million and the equity amounted to EUR 26,7 million, an equity ratio of 33,4%.


Statement by the Board of Directors and the CEO

To the best of our knowledge 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 2017, its assets, liabilities and financial position as at 30 June 2017 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 2017 with their signatures.

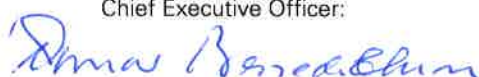
Kópavogur, 22 August 2017

The Board of Directors:



Handwritten signatures of the Board of Directors in blue ink. The signatures are arranged in two columns. The top signature is 'Markus Leifsson'. The middle row contains 'Kristinn Guðmundsson' on the left and 'Sóley Sölvadóttir' on the right. The bottom row contains two more signatures, which are less legible but appear to be 'Alf Þ. R.' and 'B. V.'.

Chief Executive Officer:



Handwritten signature of the Chief Executive Officer, 'Anna Benediktsson', in blue ink.

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, 2017, 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, 22 August 2017

KPMG ehf.

Arni Claesun

Statement of Comprehensive Income for six months ended 30 June 2017

	Notes	2017 1.1 - 30.6	2016 1.1 - 30.6
Sale of bandwidth		5.868.860	5.332.966
Income from Public Service Contract		2.004.750	1.376.626
		<u>7.873.610</u>	<u>6.709.592</u>
Operating expenses		3.137.265	2.880.101
Administrative expenses		528.377	470.534
		<u>3.665.642</u>	<u>3.350.635</u>
Profit before depreciation and finance items		4.207.968	3.358.957
Depreciation		(3.599.830)	(3.593.402)
Operating profit/(loss)		608.138	(234.445)
Finance income		12.307	16.508
Interest- and indexation expenses	4	(1.898.885)	(2.001.484)
Exchange rate differences		(625.217)	(1.182.567)
Net finance cost		<u>(2.511.796)</u>	<u>(3.167.543)</u>
Total comprehensive loss for the period		<u>(1.903.657)</u>	<u>(3.401.988)</u>

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

Statement of Financial Position as at 30 June 2017

	Notes	30.6.2017	31.12.2016
Assets			
Operating assets		76.552.810	80.152.640
Prepaid expenses		1.502.437	1.547.063
		<u>78.055.247</u>	<u>81.699.703</u>
Non-current assets			
Trade receivables		254.320	239.615
Other receivables		498.764	418.779
Cash and cash equivalents		891.864	599.365
		<u>1.644.948</u>	<u>1.257.759</u>
Current assets			
		<u>79.700.195</u>	<u>82.957.462</u>
Total assets			
Equity			
Share capital		59.615.031	59.615.031
Accumulated deficit		(32.962.195)	(31.058.538)
		<u>26.652.836</u>	<u>28.556.493</u>
Total equity			
Liabilities			
Loans and borrowings	5	45.091.082	45.329.796
Deferred income	3b	2.250.000	3.000.000
		<u>47.341.082</u>	<u>48.329.796</u>
Non-current liabilities			
Loans and borrowings	5	2.860.839	3.329.225
Trade payables		390.955	465.880
Deferred income and other liabilities	3b	2.454.484	2.276.068
		<u>5.706.278</u>	<u>6.071.173</u>
Current liabilities			
		<u>53.047.360</u>	<u>54.400.969</u>
Total liabilities			
Total equity and liabilities		<u>79.700.195</u>	<u>82.957.462</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 2017

	Notes	Share capital	Other paid in capital	Accumulated deficit	Total equity
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>
Changes in equity for six months ended					
30 June 2017					
Equity as at 1 January 2017		59.615.031	0	(31.058.538)	28.556.493
Total comprehensive loss for the period				(1.903.657)	(1.903.657)
Equity as at 30 June 2017		<u>59.615.031</u>	<u>0</u>	<u>(32.962.195)</u>	<u>26.652.836</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 2017

	Notes	2017 1.1 - 30.6	2016 1.1 - 30.6
Cash flow from operating activities			
Loss for the period .....	(	1.903.657)	(3.401.988)
Adjustments for:			
Depreciation		3.599.830	3.593.402
Net finance cost		2.511.796	3.167.543
		<u>4.207.968</u>	<u>3.358.957</u>
Changes in operating assets and liabilities .....	(	684.660)	5.595.074
Cash generated from operating activities before interest		<u>3.523.308</u>	<u>8.954.031</u>
Interest received		12.307	16.508
Interest paid .....	(	1.599.570)	(1.436.656)
Net cash from operating activities		<u>1.936.045</u>	<u>7.533.883</u>
Cash flows from financing activities			
Repayment of long-term loans .....	(	1.530.045)	(7.956.500)
Net cash used in financing activities		<u>(1.530.045)</u>	<u>(7.956.500)</u>
Net increase/(decrease) in cash and cash equivalents.....		406.000	(422.617)
Cash and cash equivalents at 1 January		599.365	802.938
Effect of exchange rate fluctuations on cash held .....	(	113.501)	(16.058)
Cash and cash equivalents at 30 June.....		<u>891.864</u>	<u>364.263</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 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 2016.

The condensed interim financial statements were authorized for issue by the Board of Directors on 22 August 2017.

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 2016.

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 2016.

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. New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company.

Notes, contd.:

4. Finance income and finance expenses

Interest- and indexation expenses are specified as follows:

	30.6.2017	30.6.2016
Interest expenses and borrowing costs	1.404.399	1.436.534
Indexation charge	494.486	564.950
Total finance expenses	<u>1.898.885</u>	<u>2.001.484</u>

5. Loans and borrowings

Terms and conditions of outstanding loans were as follows:

	Curr.	Year of maturity	30.6.2017		31.12.2016	
			Interest rate	Carrying amount	Interest rate	Carrying amount
Secured bond issue.....	ISK	2034	5,5% + indexed	46.533.663	5,5% + indexed	46.335.607
Secured loan.....	EUR	2018	Euribor + 4,5%	756.242	Euribor + 4,5%	995.407
Finance lease liabilities.....	EUR	2018	Libor + 4,12%	448.058	Libor + 4,12%	891.358
Finance lease liabilities.....	CHF	2018	Libor + 4,12%	102.580	Libor + 4,12%	195.365
Finance lease liabilities.....	JPY	2018	Libor + 4,12%	91.244	Libor + 4,12%	199.242
Finance lease liabilities.....	USD	2018	Libor + 4,12%	20.134	Libor + 4,12%	42.042
				<u>47.951.921</u>		<u>48.659.021</u>
Current and due maturities.....				(2.860.839)		(3.329.225)
Total long term liabilities.....				<u>45.091.082</u>		<u>45.329.796</u>

Maturities are specified as follows over the next years:

	30.6.2017	31.12.2016
Repayments in 1 year or less	2.860.839	3.329.225
Repayments in 1 - 2 years	2.053.752	2.321.904
Repayments in 2 - 3 years	1.898.424	1.807.001
Repayments in 3 - 4 years	2.006.076	1.909.556
Repayments in 4 - 5 years	2.119.731	2.017.828
Subsequent	37.013.099	37.273.507
Total long term liabilities	<u>47.951.921</u>	<u>48.659.021</u>

Guarantees on long term liabilities:

	Guarantor/Guarantee	30.6.2017	31.12.2016
Secured bond issue, indexed.....	Icelandic State	46.533.663	46.335.608
Secured loan.....	Landing equipment	756.242	995.407
Finance lease liabilities.....	Leased equipment	662.016	1.328.006
		<u>47.951.921</u>	<u>48.659.021</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.

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 2017 and Farice did not buy any goods or service from related parties in 2017.

The company has a public service agreement with the Telecommunication Fund that undertakes to compensate Farice for discharging public service. The contract period expires on 31. December 2018.