

Farice ehf.
Condensed Interim Financial Statements
1 January - 30 June 2014

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 6,6 million and the EBITDA EUR 3,7 million. The comprehensive loss for the period amounted to EUR 2,9 million. According to the statement of financial position the company's total assets amounted to EUR 101,7 million and the equity amounted to EUR 44,1 million, an equity ratio of 43,4%.

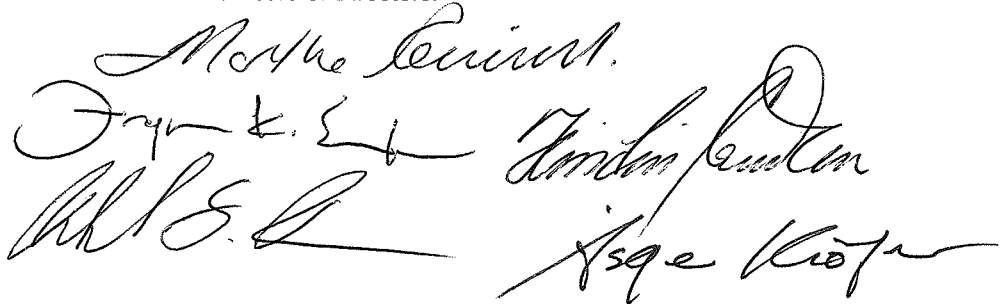
Statement by the Board of Directors and the CEO

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 2014, its assets, liabilities and financial position as at 30 June 2014 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 2014 with their signatures.

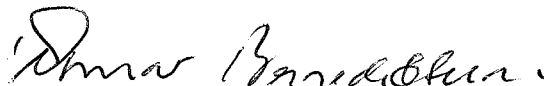
Kópavogur, 18 August 2014

The Board of Directors:



The image shows five handwritten signatures in black ink. The first signature is at the top left, followed by two more on the left side. On the right side, there are two more signatures, one above the other. The signatures are cursive and difficult to read.

Chief Executive Officer:



The image shows a single handwritten signature in black ink, which is cursive and difficult to read.

Independent Auditors' Review Report

To the Board of Directors and Shareholders of Farice ehf.

We have reviewed the accompanying statement of financial position of Farice ehf. as at June 30, 2014, the statement of comprehensive income, changes in equity and cash flows for the six month period then ended, and summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

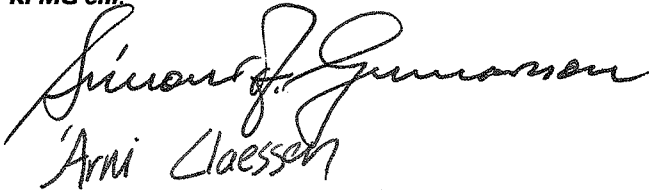
We conducted our review in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial 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 interim financial information does not give a true and fair view of the financial position of the entity as at June 30, 2014, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 18 August 2014

KPMG ehf.



Simon J. Gunnarsson
Arni Claesson

Statement of Comprehensive Income for six months ended 30 June 2014

	Notes	2014	2013
Sale of bandwidth		5.306.541	4.583.724
Income from Public Service Contract		1.276.411	1.471.529
		<u>6.582.952</u>	<u>6.055.253</u>
Operating expenses		2.512.836	2.334.004
Administrative expenses		418.555	414.905
		<u>2.931.390</u>	<u>2.748.909</u>
Profit before depreciation and finance items		3.651.562	3.306.344
Depreciation		(3.699.627)	(3.783.551)
Operating loss		(48.065)	(477.207)
Finance income		5.896	772
Interest- and indexation expenses	4	(1.771.822)	(2.193.698)
Exchange rate differences		(1.088.371)	(1.811.847)
Net finance cost		<u>(2.854.297)</u>	<u>(4.004.773)</u>
Total comprehensive loss for the period		<u>(2.902.362)</u>	<u>(4.481.980)</u>

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

Statement of Financial Position as at 30 June 2014

	Notes	30.6.2014	31.12.2013
Assets			
Operating assets		97.796.467	101.487.558
Prepaid expenses		1.770.198	1.814.826
Prepaid lease		22.575	45.063
Non-current assets		<u>99.589.239</u>	<u>103.347.447</u>
Trade receivables		244.892	284.934
Other receivables		362.870	199.207
Cash and cash equivalents		1.528.265	626.172
Current assets		<u>2.136.027</u>	<u>1.110.313</u>
Total assets		<u>101.725.267</u>	<u>104.457.760</u>
Equity			
Share capital		53.372.575	53.372.575
Other paid in capital		2.549.061	2.549.061
Accumulated deficit		(11.794.426)	(8.892.064)
Total equity		<u>44.127.210</u>	<u>47.029.572</u>
Liabilities			
Loans and borrowings	5	<u>52.644.293</u>	<u>52.991.618</u>
Loans and borrowings	5	3.570.399	3.463.970
Trade payables		465.836	192.675
Other liabilities		917.528	779.925
Current liabilities		<u>4.953.763</u>	<u>4.436.570</u>
Total liabilities		<u>57.598.056</u>	<u>57.428.188</u>
Total equity and liabilities		<u>101.725.267</u>	<u>104.457.760</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 2014

	Notes	Share capital	Additional paid in capital	Accumulated deficit	Total equity
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			2.549.061		2.549.061
Total comprehensive loss for the period				(4.481.980)	(4.481.980)
Equity as at 30 June 2013		<u>53.372.575</u>	<u>2.549.061</u>	<u>(6.175.507)</u>	<u>49.746.129</u>
Changes in equity for six months ended					
30 June 2014					
Equity as at 1 January 2014		53.372.575	2.549.061	(8.892.064)	47.029.572
Total comprehensive loss for the period				(2.902.362)	(2.902.362)
Equity as at 30 June 2014		<u>53.372.575</u>	<u>2.549.061</u>	<u>(11.794.426)</u>	<u>44.127.210</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 2014

	Notes	2014	2013
Cash flow from operating activities			
Loss for the period .....	(	2.902.362)	(4.481.980)
Adjustments for:			
Depreciation		3.699.627	3.783.551
Net finance cost		2.854.297	4.004.773
		<u>3.651.562</u>	<u>3.306.344</u>
Changes in current assets and liabilities		360.721	356.604
Cash generated from operating activities before interest		<u>4.012.283</u>	<u>3.662.948</u>
Interest received		5.896	772
Interest paid .....	(	1.353.363)	(1.396.810)
Net cash from operating activities		<u>2.664.816</u>	<u>2.266.910</u>
Cash flows from investing activities			
Acquisition of property and equipment .....	(	8.536)	(885.534)
Net cash used in investing activities	(	<u>8.536</u>)	(<u>885.534</u>)
Cash flows from financing activities			
Additional paid in capital		0	650.000
Repayment of long-term loans .....	(	1.754.000)	(1.691.062)
Net cash used in financing activities	(	<u>1.754.000</u>)	(<u>1.041.062</u>)
Net increase in cash and cash equivalents		902.280	340.314
Cash and cash equivalents at 1 January		626.172	300.839
Effect of exchange rate fluctuations on cash held .....	(	187)	10.961
Cash and cash equivalents at 30 June		<u>1.528.265</u>	<u>652.114</u>
Investing and financing activities not affecting cash flow			
Repayment of long-term loans		0	(1.899.061)
Additional paid in capital		0	1.899.061

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 2013.

The condensed interim financial statements were authorized for issue by the Board of Directors on 18 August 2014.

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 2013.

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 2013.

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 2014, 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:

	30.6.2014	30.6.2013
Interest expenses and borrowing costs	1.362.814	1.377.482
Indexation charge	409.008	816.216
Total finance expenses	<u>1.771.822</u>	<u>2.193.698</u>

Notes, contd.:

5. Loans and borrowings

Terms and conditions of outstanding loans were as follows:

	Curr.	Year of maturity	Interest rate	30.6.2014	Interest rate	31.12.2013
				Carrying amount		Carrying amount
Secured bond issue.....	ISK	2034	5,5% + indexed	36.994.744	5,5% + indexed	36.021.961
Secured bank loans.....	EUR	2017-2019	Euribor+0,8-2,12%	12.890.900	Euribor+0,8-2,12%	13.384.704
Secured loan.....	EUR	2018	Euribor + 4,5%	2.099.950	Euribor + 4,5%	2.304.038
Finance lease liabilities.....	EUR	2018	Libor + 4,12%	2.953.504	Libor + 4,12%	3.337.485
Finance lease liabilities.....	CHF	2018	Libor + 4,12%	575.704	Libor + 4,12%	645.522
Finance lease liabilities.....	JPY	2018	Libor + 4,12%	591.769	Libor + 4,12%	640.682
Finance lease liabilities.....	USD	2018	Libor + 4,12%	108.121	Libor + 4,12%	121.196
				<u>56.214.692</u>		<u>56.455.588</u>
Current and due maturities.....				(3.570.399)		(3.463.970)
Total long term liabilities.....				<u>52.644.293</u>		<u>52.991.618</u>

Maturities are specified as follows over the next years:

	30.6.2014
Repayments in 1 year or less	3.602.739
Repayments in 1 - 2 years	3.731.993
Repayments in 2 - 3 years	3.867.714
Repayments in 3 - 4 years	6.755.032
Repayments in 4 - 5 years	5.359.945
Subsequent	33.536.082
Total repayments	<u>56.853.505</u>
Capitalized borrowing cost	(638.813)
Total long term liabilities	<u>56.214.692</u>

Guarantees on longterm liabilities:

	30.6.2014	Guarantor/Guarantee
Secured bond issue, indexed.....	36.994.744	Icelandic State
Secured bank loans A-term.....	11.004.631	Icelandic State
Secured bank loans B-term.....	1.562.183	Skipti hf.
Secured bank loans.....	324.086	Trade receivable
Secured loan.....	2.099.950	Landing equipment
Finance lease liabilities.....	4.229.098	Leased equipment
	<u>56.214.692</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.