

Farice ehf.
Condensed Interim Financial Statements
1 January - 30 June 2015

Farice ehf.
Smáratorgi 3
201 Kópavogur

Reg. no. 511203-2950

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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, 2015, 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, 11 August 2015

KPMG ehf.



Armi Claes

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 7,5million and the EBITDA EUR 4,3 million. The comprehensive loss for the period amounted to EUR 3,3 million. According to the statement of financial position the company's total assets amounted to EUR 94 million and the equity amounted to EUR 39,8 million, an equity ratio of 42,4%.

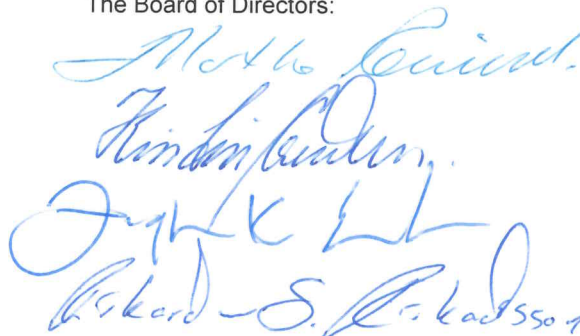
Statement by the Board of Directors and the CEO

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 2015, its assets, liabilities and financial position as at 30 June 2015 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 2015 with their signatures.

Kópavogur, 11. August 2015

The Board of Directors:



The image shows four distinct handwritten signatures in blue ink, stacked vertically. The signatures are cursive and appear to be of Icelandic origin. The top signature is the most legible, followed by three others that are more stylized and difficult to read.

Chief Executive Officer:



The image shows a single handwritten signature in blue ink, which is cursive and appears to be the signature of the Chief Executive Officer.

Statement of Comprehensive Income for six months ended 30 June 2015

	Notes	2015	2014		
Sale of bandwidth		6.109.279	5.306.541		
Income from Public Service Contract		1.346.566	1.276.411		
		<u>7.455.844</u>	<u>6.582.952</u>		
Operating expenses		2.770.609	2.512.836		
Administrative expenses		408.907	418.555		
		<u>3.179.516</u>	<u>2.931.390</u>		
Profit before depreciation and finance items		4.276.328	3.651.562		
Depreciation	(3.660.741)	(3.699.627)	
Operating profit/(loss)		615.587	(48.065)	
Finance income		964	5.896		
Interest- and indexation expenses	4	(2.041.137)	(1.771.822)
Exchange rate differences		(1.905.215)	(1.088.371)
Net finance cost		(3.945.389)	(2.854.297)
Total comprehensive loss for the period		(<u>3.329.802</u>)	(<u>2.902.362</u>)

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

Statement of Financial Position as at 30 June 2015

	Notes	30.6.2015	31.12.2014
Assets			
Operating assets		90.874.564	94.346.413
Prepaid expenses		1.680.942	1.725.570
		<u>92.555.506</u>	<u>96.071.983</u>
Non-current assets			
Trade receivables		241.583	328.281
Other receivables		463.908	387.190
Cash and cash equivalents		767.004	355.816
		<u>1.472.495</u>	<u>1.071.287</u>
Current assets			
		<u>94.028.000</u>	<u>97.143.270</u>
Total assets			
Equity			
Share capital		53.372.575	53.372.575
Other paid in capital		2.549.061	2.549.061
Accumulated deficit		(16.072.281)	(12.742.479)
		<u>39.849.355</u>	<u>43.179.157</u>
Total equity			
Liabilities			
Loans and borrowings	5	49.710.274	49.536.421
Loans and borrowings	5	2.856.943	3.040.309
Trade payables		529.365	422.709
Other liabilities		1.082.063	964.674
		<u>4.468.371</u>	<u>4.427.692</u>
Current liabilities			
		<u>54.178.645</u>	<u>53.964.113</u>
Total liabilities			
Total equity and liabilities		<u>94.028.000</u>	<u>97.143.270</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 2015

	Notes	Share capital	Other paid in capital	Accumulated deficit	Total equity
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>
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>

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 2015

	Notes	2015	2014
Cash flow from operating activities			
Loss for the period .....	(	3.329.802)	(2.902.362)
Adjustments for:			
Depreciation		3.660.741	3.699.627
Net finance cost		3.945.389	2.854.297
		4.276.328	3.651.562
Changes in current assets and liabilities		262.308	360.721
Cash generated from operating activities before interest		4.538.636	4.012.283
Interest received		964	5.896
Interest paid .....	(	1.379.579)	(1.353.363)
Net cash from operating activities		3.160.021	2.664.816
Cash flows from investing activities			
Acquisition of property and equipment .....	(	188.891)	(8.536)
Net cash used in investing activities	(	188.891)	(8.536)
Cash flows from financing activities			
Repayment of long-term loans .....	(	2.569.584)	(1.754.000)
Net cash used in financing activities	(	2.569.584)	(1.754.000)
Net increase in cash and cash equivalents		401.546	902.280
Cash and cash equivalents at 1 January		355.816	626.172
Effect of exchange rate fluctuations on cash held		9.642	(187)
Cash and cash equivalents at 30 June		767.004	1.528.265

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 2014.

The condensed interim financial statements were authorized for issue by the Board of Directors on 11 August 2015.

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 2014.

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 2014.

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 2015, 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:

	30.6.2015	30.6.2014
Interest expenses and borrowing costs	1.393.796	1.362.814
Indexation charge	647.341	409.008
Total finance expenses	2.041.137	1.771.822

Notes, contd.:

5. Loans and borrowings

Terms and conditions of outstanding loans were as follows:

	Curr.	Year of maturity	30.6.2015		31.12.2014	
			Interest rate	Carrying amount	Interest rate	Carrying amount
Secured bond issue.....	ISK	2034	5,5% + indexed	38.276.708	5,5% + indexed	36.408.503
Secured bank loans.....	EUR	2019	Euribor + 1,7%	9.434.276	Euribor+0,8-2,12%	10.619.308
Secured loan.....	EUR	2018	Euribor + 4,5%	1.675.289	Euribor + 4,5%	1.890.557
Finance lease liabilities.....	EUR	2018	Libor + 4,12%	2.158.529	Libor + 4,12%	2.560.935
Finance lease liabilities.....	CHF	2018	Libor + 4,12%	490.186	Libor + 4,12%	503.961
Finance lease liabilities.....	JPY	2018	Libor + 4,12%	436.017	Libor + 4,12%	488.291
Finance lease liabilities.....	USD	2018	Libor + 4,12%	96.213	Libor + 4,12%	105.175
				<u>52.567.218</u>		<u>52.576.730</u>
Current and due maturities.....				(2.856.943)		(3.040.309)
Total long term liabilities.....				<u>49.710.275</u>		<u>49.536.421</u>

Maturities are specified as follows over the next years:

	30.6.2015
Repayments in 1 year or less	2.889.283
Repayments in 1 - 2 years	4.913.462
Repayments in 2 - 3 years	6.269.510
Repayments in 3 - 4 years	5.443.772
Repayments in 4 - 5 years	1.493.413
Subsequent	32.164.247
Total repayments	<u>53.173.687</u>
Capitalized borrowing cost	(606.469)
Total long term liabilities	<u>52.567.218</u>

Guarantees on longterm liabilities:

	30.6.2015	Guarantor/Guarantee
Secured bond issue, indexed.....	38.276.708	Icelandic State
Secured bank loans A-term.....	9.434.276	Icelandic State
Secured loan.....	1.675.289	Landing equipment
Finance lease liabilities.....	3.180.945	Leased equipment
	<u>52.567.218</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 2015 and Farice did not buy any goods or service from related parties in 2015.

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 2015 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 is five years, starting on 1 January 2012.