Deloitte.

Eignarhaldsfélagið Farice ehf.

Consolidated Financial Statements

2007

Eignarhaldsfélagið Farice ehf.
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Consolidated Financial Statements

2007

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Independent Auditor's Report

To the Board of Directors and shareholders of Eignarhaldsfélagið Farice ehf.

We have audited the accompanying financial statements of Eignarhaldsfélagið Farice ehf., which comprise the balance sheet as at December 31, 2007, and the income statement, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Eignarhaldsfélagið Farice ehf. as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Kópavogi May 13, 2008

Deloitte hf.

Páll Grétar Steingrímsson
State Authorized Public Accountant

Report by the Board of Directors and Managing Director

The Consolidated Financial Statements for the year 2007 consist of the Consolidated Financial Statements of Eignarhaldsfélagið Farice ehf. and its subsidiary, together referred to as the Company (Group). The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and additional Icelandic disclosure requirements for listed companies.

The loss of the year amounted to EUR 603.017. According to the Balance Statement the Company's assets amount to EUR 57.289.250, the year's end book value of equity is EUR 16.468.848 and the Company's equity ratio is 28,75%.

At year-end, shareholders in Eignarhaldsfélagið Farice ehf. numbered six, compared to three at the beginning of the year. Three shareholders owned more than 10% of the shares in the Company at year-end: Icelandic state, with 38,97%, Skipti hf. 25,77% and Og fjarskipti hf. with 11,06%.

The Board of Directors recommends that the loss of the year should be brought forward to the next year. As regards changes in the equity of the Company, the Board of Directors refers to the Notes attached to the Financial Statements.

It is the opinion of the Board of Directors and the Managing Director that the accounting policies used are appropriate and that these Consolidated Financial Statements present all the information necessary to give a true and fair view of the company's assets and liabilities, financial position and operating performance, as well as describing the principal risk and uncertainty factors faced by the company.

The Board of Directors and the Managing Director hereby confirm the Consolidated Financial Statements for the year 2007 with their signatures.

Reykjavík, April, 23 2008

Board of Directors

Sigurður G. Guðjónsson
Chairman of the Board

Stefán Pétursson

Páll Erland

Inga Björg Hjaltadóttir

Páll Ásgrímsson

Friðrik Friðriksson

Gestur Gestsson

Managing Director

Guðmundur Gunnarsson

Consolidated Income Statement
for the year 2007

	Notes	2007	2006
Operating revenue	3	7.972.715	8.551.690
Operating expenses		(2.076.300)	(2.050.500)
Administrative expenses		(727.151)	(918.576)
Depreciation	8	(4.230.315)	(4.034.951)
Operating income (loss)		938.949	1.547.663
Financial income	6	64.697	83.352
Financial expenses	6,14	(1.738.386)	(1.719.678)
Net loss before tax		(734.739)	(88.663)
Income tax	15	131.722	77.195
Net loss for the year		(603.017)	(11.468)
Attributable to:			
Equity holders of the parent		(441.352)	52.688
Minority interest		(161.665)	(64.156)
		(603.017)	(11.468)
Net (loss) earnings per share			
Basic (net loss) / earnings per share	7	-0,036	-0,001

Amounts in euro

Consolidated Balance Sheet

Assets	Notes	31.12.2007	31.12.2006
Non-current assets			
Cable stations	8	5.883.599	5.449.691
International waters	8	27.635.695	29.362.922
Cantat	8	5.946.658	6.919.608
Danice	8	13.330.294	0
Common Items	8	1.341.479	2.026.787
Prepaid lease		314.932	359.912
Deferred tax assets	15	711.857	626.036
		55.164.513	44.744.956
Current assets			
Accounts receivable	10	1.254.894	195.662
Other receivables		288.877	283.368
Market securities		0	2.000.000
Bank deposits and cash		580.965	1.727.004
		2.124.736	4.206.034
Total assets		57.289.250	48.950.990

December 31, 2007

	Notes	31.12.2007	31.12.2006
Equity and Liabilities			
Equity			
Share capital	11	16.972.983	11.868.544
Loss carry-forward	12	(2.576.901)	(2.107.699)
Equity attributable to equity holders of the parent		14.396.082	9.760.845
Minority interest		2.072.766	2.207.973
		16.468.848	11.968.818
Liabilities			
Non-current liabilities			
Long-term bonds	13	28.406.667	32.326.667
Current liabilities			
Current maturities	13	3.920.000	3.920.000
Accounts payable		1.943.154	153.817
Other current liabilities		6.550.581	581.688
		12.413.735	4.655.505
Total equity and liabilities		57.289.250	48.950.990

Consolidated Statements of Cash Flows for the year 2007

	Notes	2007	2006
Cash flows from operating activities			
Net profit (loss) before other income and expenses		1.100.614	1.611.819
Items not affecting cash		4.059.825	3.970.795
Changes in current assets and liabilities		575.044	(309.738)
Net cash provided (used) in operating activities before interest		5.735.483	5.272.876
Paid in interest income	6	155.020	29.305
Paid interest expenses	6	(1.709.618)	(1.789.454)
Net cash provided (used) in operating activities		4.180.886	3.512.727
Cash flows from investing activities			
Investment in fixed assets		(14.617.305)	(1.531.413)
Sold car		17.098	0
Net cash provided by (used in) investing activities		(14.600.207)	(1.531.413)
Cash flows from financing activities			
Short-term borrowings		6.088.844	0
Long-term liabilities repaid		(3.920.000)	(3.920.000)
Paid in capital stock		5.104.439	0
Net cash provided by (used in) financing activities		7.273.283	(3.920.000)
Increase (decrease) in cash and cash equivalents		(3.146.038)	(1.938.686)
Cash and cash equivalents at beginning of year		3.727.004	5.665.690
Cash and cash equivalents at end of year		580.965	3.727.004

Consolidated Statement of changes in Equity for the year ended December 31, 2007

	Share capital	Loss carry-forward	Equity holders of the parent	Minority	Total equity
Balance at January 1, 2007.................	11.868.544	(2.107.699)	9.760.845	2.207.973	11.968.818
Deferred tax assets adjustment		(45.901)	(45.901)		(45.901)
Paid in share capital...........................	5.104.439		5.104.439		5.104.439
Other changes in equity.....................		18.051	18.051	26.458	44.509
Net (loss) for the year........................		(441.352)	(441.352)	(161.665)	(603.017)
Balance at December 31, 2007..........	16.972.983	(2.576.901)	14.396.082	2.072.766	16.468.848

Notes to financial statements

1. General information

Eignarhaldsfélagið Farice ehf. is a limited company incorporated in Iceland. The addresses of its registered office and a principal place of business can be found on page 1.

The company was founded on December 11th 2003 by the three main holders of the Icelandic shares in Farice hf., the Icelandic Ministry of Communications, Landssími Íslands hf. and Og Fjarskipti hf. The principal activities of the company and its subsidiaries is to insure safe telecommunications between Iceland and its neighbour countries. The company started operating the Farice submarine cable in the year 2004.

These financial statements are presented in euros since that is the functional currency in which the majority of the Group´s transactions are denominated.

2. Significant Accounting Policies

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards IFRS.

Basis of Preparation

The consolidated financial statements are prepared under the historical cost convention except for revaluation of certain financial instruments.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The principal accounting policies adopted are set out below.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the company and enterprises controlled by the company (its subsidiaries). Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its acitvities.

The consolidated financial statements have been prepared using the purchase method of consolidation accounting. When ownership in subsidiaries is less than 100%, the minority interest in the subsidiaries' income or loss and stockholders equity is accounted for in the calculation of the consolidated income or loss and the consolidated stockholders´ equity.

One of the purposes of consolidated financial statements is to show only the net external sales, expenses, assets and liabilities of the consolidated entities as a whole. Hence, intercompany transactions have been eliminated within the consolidated businesses in the presentation of the consolidated financial statements.

2. Significant Accounting Policies (continued)

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Foreign Currencies

Transactions in currencies other than euro are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The income tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The consolidated liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates for each country that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to financial statements

2. Significant Accounting Policies (continued)

Property, plant and equipment

Cable system are recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the consolidation and the cost of the asset can be measured in a reliable manner.

Cable system which qualifies for recognition as an asset is initially measured at cost.

The cost of the cable system comprises its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use.

The depreciable amount of the asset is allocated on a straight-line basis over its useful life. The depreciation charge for each year is recognised as an expense, on the following bases:

Point of Presence (PoP)	10%
Backhaul	10%
Cable stations	10%
Wet section	5%
Common items	10-20%
Cantant	10%

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Accounts receivable

Accounts receivable are valued at nominal value less an allowance for doubtful accounts. The allowance is deducted from accounts receivable in the balance sheet and does not represent a final write-off. Accounts receivable in other currencies than euro, have been entered at the exchange rates prevailing on the balance sheet date.

Notes to financial statements

2. Significant Accounting Policies (continued)

Long-term liabilities

Long-term liabilities are valued at nominal value less payments made and the remaining nominal balance is adjusted by exchange rate or index, if applicable. Interest expense is accrued on a periodical basis, based on the principal outstanding and at the interest rate applicable.

Accounts payable

Accounts payable are valued at nominal value and accounts payable in other currencies than euro have been booked at the exchange rates prevailing on the balance sheet date.

Derivative financial instruments

The company uses derivative financial instruments to hedge its risk for changes in interest rates. Those financial instruments are interest rate swap contracts.

The use of financial derivatives is governed by the company's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives.

Provisions

Provision is recognised when an enterprise has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for restructuring costs are recognised when the company has a detailed formal plan for the restructuring which has been notified to affected parties.

3. Revenue

Net sales are specified as follows:

	2007	2006
Lease of bandwidth - Farice 1	6.020.299	6.850.091
Discount of bandwith	(40.416)	(21.914)
Lease of bandwidth - Cantat	1.984.008	1.723.512
Gain on sales of assets	8.825	0
	7.972.715	8.551.690

Notes to financial statements

4. Geographical segments

The company uses geographical markets as its primary segments. Segment information is presented below, according to location of customers:

Segment information

	E-Farice Iceland	Faroe Islands Branch	Iceland Branch	Eliminations	Consolidated
Total revenues	6.455.006	1.528.885	4.588.833	(4.600.009)	7.972.715
Net profit (loss)	201.239	21.278	(825.534)		(603.018)

5. Salaries

Salaries and salary-related expenses paid by the Consolidation are specified as follows:

	2007	2006
Salaries	127.542	148.057
Board fees	45.202	0
Salary-related expenses	45.617	45.236
	218.360	193.293
Average number of positions	1,25	1,9

6. Financial income / (expenses)

	2007	2006
Financial income:		
Interest on bank deposits	64.697	83.352
Finance costs:		
Interest on bank loans	(1.778.412)	(1.784.263)
Borrowing cost	(5.450)	0
Exchange rate differences	45.476	(18.766)
	(1.738.386)	(1.803.030)
	(1.673.688)	(1.719.678)

Notes to financial statements

7. Earnings per share

The calculation of Earnings per Share is based on the following data:

	2007	2006
Net profit (loss) for the year	(603.017)	(11.468)
Total average number of shares including potential shares	16.972.983	11.868.544
Basic Earnings (loss) per Share	(0,036)	(0,001)

8. Property, plant and equipment

	Pop/ Bach./CS	Wet section	Common Items	Cantat Danice	Total
Cost					
At January 1, 2007	6.954.191	34.544.546	4.406.958	9.729.500	55.635.195
Additions	1.244.040		42.971	13.330.294	14.617.305
Eliminated on disposal			(38.181)		(38.181)
At December 31, 2007	8.198.231	34.544.546	4.411.748	23.059.794	70.214.319
Accumulated depreciation					
At January 1, 2007	1.504.500	5.181.624	2.380.171	2.809.892	11.876.187
Charge for the year	810.132	1.727.227	720.006	972.950	4.230.315
Eliminated on disposal			(29.908)		(29.908)
At December 31, 2007	2.314.632	6.908.851	3.070.269	3.782.842	16.076.594
Carrying Amount					
At December 31, 2007	5.883.599	27.635.695	1.341.479	19.276.952	54.137.725
At January 1, 2007	5.449.691	29.362.922	2.026.787	6.919.608	43.759.008

9. The Consolidation

The Consolidated Financial Statements of Eignarhaldsfélagið Farice ehf. pertain to the following subsidiaries:

Name of company	Place of registration and operation	Ownership	Principal activity
Farice hf.	Iceland/Faroe Islands	79,90%	Telecommunication

Notes to financial statements

10. Other financial assets

Accounts receivable:

	31.12.2007	31.12.2006
Nominal value	1.254.894	195.662

Bank balances and cash:

Bank balances and cash comprise cash and short-term deposits held by the Consolidation treasury function. The carrying amount of these assets approximates their fair value.

11. Share capital

Share capital is as follows:

	Shares	Ratio	Nominal value
Total share capital January 1, 2007	11.868.544		11.868.544
Paid in share capital	5.104.439		5.104.439
Total share capital at December 31, 2007	16.972.983	100,0%	16.972.983

Each share of one euro carries one vote.

12. Loss carry-forward

	Loss carry-forward
Balance at January 1, 2007	(2.107.699)
Deferred tax assets adjustment 1.1	(45.901)
Other changes in equity	18.051
Net loss for the year	(441.352)
Balance at December 31, 2007	(2.576.901)

13. Loans from credit institutions

	Remaining balances 31.12.2007
Loans in EUR	28.406.667
Current maturities	3.920.000
Loans from credit institutions	32.326.667

Aggregated annual maturities are as follows:

Current maturities	3.920.000
Installments 2009	8.826.667
Installments 2010	7.360.000
Installments 2011	2.820.000
Installments later	9.400.000
	32.326.667

The terms of a loan facilities include various provisions that limits certain actions by the company without prior consulting with the lender. In addition the loan facilities include certain financial covenants.

Notes to financial statements

14. Derivative financial instruments

Interest Rate Swaps

The company uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Contracts with nominal values of 23,5 million euros have fixed interest payments at an average rate of 4,72 per cent for periods up until 2015 and have floating interest receipts at 0,59 per cent plus LIBOR and the differences amounts to swap rates.

15. Deferred tax

	Deferred tax asset	Deferred tax liabilities	Total
At January 1, 2007	2.015.419	(1.389.383)	626.036
Deferred tax assets adjustment 1.1	(45.901)	0	(45.901)
Calculated tax for the year	77.463	54.259	131.722
At December 31, 2007	2.046.981	(1.335.124)	711.857

There is no deferred income tax liability credited in the balance sheet due to taxation loss carry forward, even though income tax liability is related to some individual items of the balance sheet. The following are the major deffered tax liabilities and assets recognised:

Fixed tangible assets	(1.335.124)
Loss carry-forward	2.046.981
	711.857

At balance sheet date the Consolidation has unused tax losses available for offset against future profits as follows:

	Tax loss	Deferred tax
Available for 5 years	33.564	6.041
Available for 6 years	1.863.456	363.725
Available for 7 years	3.821.113	730.996
Available for 8 years	3.004.218	581.058
Available for 9 years	754.569	135.822
Available for 10 years	1.274.103	229.338
	10.751.023	2.046.981

16. Approval of financial statements

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on April 23, 2008.