

Eignarhaldsfélagið Farice ehf.

Consolidated Financial Statements

2009

Eignarhaldsfélagið Farice ehf.
Smáratorgi 3
201 Kópavogur
kt. 511203-2950

Eignarhaldsfélagið Farice ehf.

Consolidated Financial Statements

2009

Approved on board meeting April 30, 2010

Table of contents

Independent Auditor's Report	2
The Board of Directors' and CEO's Report	3-4
Income Statement	5
Balance Sheet	6-7
Statement of Equity	8
Statement of Cash Flows	9
Notes	10-22

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 endorsement and signatures of the board of directors and the CEO, the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement 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 as adopted by the EU. 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

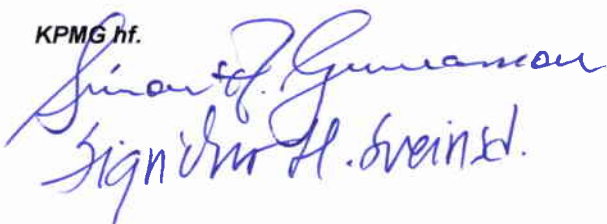
In our opinion the financial statements give a true and fair view of the financial position of Eignarhaldsfélagið Farice ehf. as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Emphasis of matter

Without qualifying our opinion, we draw attention to the discussion in the endorsement by the board of directors and the CEO and the notes to the financial statements regarding the financial restructuring and financial position of the company. The Company was in breach of some of its loan agreements at year-end 2009 and accordingly, those loans are classified as short term loans in the balance sheet. The management has been working on a restructuring plan and expect to finish negotiating with the creditors in the second quarter of 2010. If restructuring of the Company cannot be completed successfully then the Company will not be able to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements are however prepared on a going concern basis.

Reykjavík, 30 April 2010.

KPMG hf.



Simon J. Gunnarsson
Sigrún H. Sveinisdóttir

The Board of Directors' and CEO's Report

The Consolidated Financial Statements for the year 2009 comprise the financial statements of Eignarhaldsfélagið Farice ehf (the Company) and its subsidiary Farice hf. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and additional Icelandic disclosure requirements.

According to the Consolidated Statement of Income, the Company's operating revenue amounted to EUR 5,8 million in the year 2009 (2008: EUR 8,6 million), and the loss of the year amounted to EUR 14,6 million (2008: EUR 4,0 million). According to the statement of financial position, the Company's assets amounted to EUR 131,9 million at year end 2009 (at year end 2008: 111,2 million). Equity amounted to EUR 11,8 million at the end of 2009 (at year end 2008: 26,4 million), or 8,9% of total assets (at year end 2008: 23,7%).

The number of shareholders in the Company and its subsidiary at year end 2009 were six, the same as at year end 2008. Five shareholders had a holding interest of more than 10% in the Company; Landsvirkjun with 29.5%, The Icelandic State with 25%, Reykjavik Energy with 16.8%, Skipti hf. with 13.4% and Og fjarskipti ehf. with 11.1%.

In November 2009 the Company signed agreements with a financial consulting company to undertake certain work to manage a financial restructuring process for the Company and its subsidiary. The plan entails standstill agreements signed with the creditors of the Company and its subsidiary, for the postponement of financial payments. This work is expected to be finished in the second quarter of 2010.

The management of the Company believes it is taking all the necessary measures to support the sustainability and growth of the Company's business. Accordingly they continue to adopt the going concern basis in preparing the financial statements. If restructuring of the Company cannot be completed successfully then the Company will not be able to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business.

In August 2009 the Company's new submarine cable "DANICE" between Iceland and Denmark, became operational, and services have been provided to the Company's customers through this new route since September 2009.

Applicable legal provisions do not permit payment of dividend for the financial year 2009. The Board of Directors refers to the financial statement regarding appropriation of the loss for the period.


Statement of the Board of Directors and the CEO

According to the Board of Director's best knowledge, these Consolidated Financial Statements comply with International Financial Reporting Standard as adopted by the EU, and give a true and fair view of the Company's assets and liabilities, financial position as at 31 December 2009, operating performance and the cashflow for the year ended 31 December 2009 as well as describing the principal risks and uncertainty factors faced by the company. The report of the Board of Directors provides a clear overview of developments and achievements in the Company's operations and its situation.

The Board of Directors and CEO of Eignarhaldsfélagið Farice ehf. hereby confirm the Consolidated Financial Statements of Eignarhaldsfélagið Farice ehf, for the year 2009 with their signatures.

Kópavogur 30 April, 2010

Board of directors



Stefán Pétursson



Friðrik Friðriksson



Hrönn Sveinsdóttir



Karl Alvarsson



Páll Ásgrímsson



Páll Erland



Þorgerður Marinósdóttir

Chief Executive Officer



Guðmundur Gunnarsson

Consolidated statement of comprehensive income

For the year ended 31 December 2009

	Notes	2009	2008
Operating revenue	3	5.812.232	8.565.493
Operating expenses		(3.760.119)	(2.251.425)
Administrative expenses		(726.364)	(786.222)
Depreciation	8	(8.817.272)	(4.224.417)
Operating profit / (loss)		(7.491.523)	1.303.429
Financial income	5	261.576	122.899
Financial expenses	5	(6.595.797)	(5.493.999)
Net loss before tax		(13.825.743)	(4.067.671)
Income tax	6	(807.206)	95.349
Total comprehensive income / (loss)		(14.632.949)	(3.972.322)
Attributable to:			
Equity holders of the parent		(14.071.439)	(3.631.099)
Minority interest		(561.510)	(341.223)
		<u>(14.632.949)</u>	<u>(3.972.322)</u>
Basic and diluted net loss per share	7	(0,47)	(0,13)

During the years of 2009 and 2008 no items were recognised among other comprehensive income

The notes on pages 10-22 are an integral part of these consolidated financial statements

Consolidated statement of financial position

Assets	Notes	31.12.2009	31.12.2008
Non-current assets			
Property and equipment	8	130.280.594	106.597.442
Deferred tax asset	12	0	807.206
Prepaid lease		224.971	269.952
		<u>130.505.565</u>	<u>107.674.600</u>
Current assets			
Accounts receivable		579.015	1.701.021
Other receivables		530.542	1.171.035
Bank deposits and cash		258.277	655.022
		<u>1.367.834</u>	<u>3.527.078</u>
Total assets		<u><u>131.873.399</u></u>	<u><u>111.201.678</u></u>

The notes on pages 10-22 are an integral part of these consolidated financial statements

December 31, 2009

Equity and liabilities	Notes	31.12.2009	31.12.2008
Equity			
Share capital		30.886.405	30.886.405
Loss carry-forward		(20.279.441)	(6.208.001)
Equity attributable to equity holders of the parent		<u>10.606.964</u>	<u>24.678.404</u>
Minority interest		<u>1.170.033</u>	<u>1.731.543</u>
Total equity		<u>11.776.997</u>	<u>26.409.947</u>
Non-current liabilities			
Non-current liabilities	10	<u>28.557.702</u>	<u>27.533.293</u>
		<u>28.557.702</u>	<u>27.533.293</u>
Current liabilities			
Short-term liabilities	11	44.811.217	43.081.630
Current and due maturities	10	32.479.253	7.334.991
Accounts payable		6.995.247	5.190.316
Interest rate swaps	14	1.017.499	733.261
Other liabilities		6.235.484	918.240
		<u>91.538.700</u>	<u>57.258.438</u>
Total liabilities		<u>120.096.402</u>	<u>84.791.731</u>
Total equity and liabilities		<u>131.873.399</u>	<u>111.201.678</u>

The notes on pages 10-22 are an integral part of these consolidated financial statements

Consolidated Statement of changes in Equity for the period ended December 31, 2009

	Share capital	Loss carry forward	Equity holders of the parent	Minority	Total equity
Balance at January 1, 2008.....	16.972.983	(2.576.901)	14.396.080	2.072.766	16.468.847
Paid in share capital.....	13.913.422	0	13.913.422	0	13.913.422
Net loss for the year.....	0	(3.631.099)	(3.631.099)	(341.223)	(3.972.322)
Balance at January 1, 2009.....	30.886.405	(6.208.000)	24.678.403	1.731.543	26.409.947
Net loss for the year.....	0	(14.071.439)	(14.071.439)	(561.510)	(14.632.949)
Balance at December 31, 2009.....	30.886.405	(20.279.439)	10.606.964	1.170.033	11.776.997

The notes on pages 10-22 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009	2008
Cash flows from operating activities		
Loss for the year	(14.632.949)	(3.972.322)
Adjustments for:		
Depreciation	8.817.272	4.232.843
Changes in current assets and liabilities	2.080.345	1.974.016
Net finance cost	6.434.198	5.371.100
Income tax expense	807.206	(95.349)
Net cash provided by operating activities before interest	<u>3.506.072</u>	<u>7.510.288</u>
Paid interest expenses and exchange rate differences	(969.845)	(4.683.089)
Net cash from operating activities	<u>2.536.227</u>	<u>2.827.199</u>
Investing activities		
Investment in fixed assets	(29.104.713)	(56.718.940)
Disposal of assets	0	26.379
	<u>(29.104.713)</u>	<u>(56.692.561)</u>
Financing activities		
Long-term borrowings	29.985.569	6.468.422
Short-term borrowings	4.041.725	43.081.630
Short-term liabilities repaid	(3.293.797)	(7.688.844)
Long-term liabilities repaid	(3.337.275)	(2.200.000)
Paid in capital stock	0	13.913.422
	<u>27.396.222</u>	<u>53.574.630</u>
Decrease in cash and cash equivalents	827.736	(290.732)
Effects of foreign exchange adjustments	(1.224.481)	364.789
Cash and cash equivalents at beginning of the year	655.022	580.965
Cash and cash equivalents at end of the year	<u>258.277</u>	<u>655.022</u>

The notes on pages 10-22 are an integral part of these consolidated financial statements

Notes to Financial Statements

1. General information

Eignarhaldsfélagið Farice ehf. is a limited company incorporated in Iceland. The principal activities of the Company and its subsidiary is to provide telecommunication services between Iceland and its neighbour countries.

The Company has operations in Iceland, the Faroe Islands, Denmark and United Kingdom. The income and expenses originate in Iceland and neighbour countries.

Adoption of new and revised standards

Standards and interpretations effective in the current period

The Consolidated Financial Statements are presented in accordance with the new and revised standards (IFRS / IAS) and new interpretations (IFRIC), applicable in the year 2008. These standards and interpretations are:

IFRS 2 (revised 2008) -	Share-based Payment (effective for accounting periods beginning on or after 1 January 2009);
IFRS 7 (revised 2008)	Financial instruments: Disclosures (effective for accounting periods beginning on or after 1 January 2009);
IFRS 8 -	Operating segments: (effective for accounting periods beginning on or after 1 January 2009);
IAS 1 - (revised 2008)	Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009);
IAS 23 (revised 2008) -	Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009);
IAS 32 (revised 2008) -	Financial Instruments: Presentation (effective for accounting periods beginning on or after 1 January 2009);

Minor changes to various standards as a result of the IASB's annual improvement measures (2008). Most changes take effect for periods beginning 1 January 2009 or later.

IFRIC 13 -	Customer Loyalty Programs (effective for accounting periods beginning on or after 1 July 2008);
IFRIC 15 -	Agreements for the Construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009);
IFRIC 16 -	Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008);

The amendments to IFRS 2 - Share-based Payment clarify the definition of vesting conditions and the accounting treatment of cancellations by the counterparty to a share-based payment arrangement.

The amendments to IFRS 7 - Financial Instruments: Disclosures expand the disclosures required in respect of fair value measurements recognised in the Balance Sheet. For the purpose of these expanded disclosures, a three-level hierarchy has been introduced. The amendments also require enhanced liquidity risk disclosures.

According to IFRS 8 - Operating Segments an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. IFRS 8 supersedes IAS 14 - Segment Reporting from date of application.

The text of IAS 1 - Presentation of Financial Statements has been substantially rewritten, with many changes in terminology. The most significant effects of the amendments is the introduction of a statement of comprehensive income for the presentation of 'other comprehensive income' or non-owner movements (e.g. gains and losses on revaluation of property, plant and equipment) separately for the statement of changes of equity. All items of income and expense (including those recognised outside of profit and loss) must be presented either in a single statement of comprehensive income or in two statements, a separate income statement and a statement of comprehensive income.

The amendments to IAS 23 - Borrowing costs eliminate the option available under the previous version of the Standard to recognise all borrowing costs immediately as an expense. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, the revised standard requires that they be capitalised as part of the cost of that asset. All other borrowing costs should be expensed as incurred.

The amendments to IAS 32 - Financial Instruments: Presentation address the classification of puttable financial instruments and obligations arising only on liquidation.

IFRIC 13 - Customer Loyalty Programmes. This interpretation addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing award credits as part of a sales transaction. IFRIC 13 requires the entity that grants the awards to account for the sales transaction that gives rise to the award credits as a 'multiple-element revenue transaction' and to allocate the fair value of the consideration received or receivable between the award credits granted and the other components of the revenue transaction. Common examples are airline and hotel loyalty schemes.

IFRIC 15 - Agreements for the Construction of Real Estate. The interpretation addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. IFRIC 15 addresses two (related) issues, determining whether an agreement for the construction of real estate is within the scope of IAS 11 - Construction Contracts or IAS 18 - Revenue, and when revenue from the construction of real estate should be recognised.

IFRIC 16 - Hedges of a Net Investment in a Foreign Operation. The interpretation clarifies three main issues, the first issue is that the presentation currency does not create an exposure to which an entity may apply hedge accounting. Consequently, a parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation. The second issue is that the hedging instrument(s) may be held by any entity or entities within the group except for the entity being hedged as long as the designation and effectiveness requirements for a hedge of a net investment are satisfied. The third issue is that when a foreign operation is disposed of, IAS 39 must be applied to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of the hedging instrument, while IAS 21 must be applied in respect of the hedged item.

Standards and interpretations in issue not yet adopted

Following is an overview of new or revised standards and interpretations that are not yet effective:

IFRS 1 (revised 2008) -	First-time adoption of International Financial Reporting Standards (effective for accounting periods beginning on or after 1 July 2009);
IFRS 2 (revised 2008) -	Share-based Payment (effective for accounting periods beginning on or after 1 January 2010);
IFRS 3 (revised 2008) -	Business combinations (effective for accounting periods beginning on or after 1 July 2009);
IFRS 9 -	Financial Instruments: Classification and Measurement (effective for accounting periods beginning on or after 1 January 2013);
IAS 24 (revised 2009) -	Related Party Disclosures (effective for accounting periods beginning on or after 1 January 2011);
IAS 27 (revised 2008) -	Consolidated and separate Financial Statements (effective for accounting periods beginning on or after 1 July 2009);
IAS 32 (revised 2009) -	Financial Instruments: Presentation (effective for accounting periods beginning on or after 1 February 2009);
IAS 39 (revised 2008) -	Financial Instruments: Recognition and measurement (effective for accounting periods beginning on or after 1 July 2009);
IFRIC 14 (revised 2009) -	IAS 19 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2011);
IFRIC 17 -	Distributions of Non-cash Assets to Owners (effective for accounting periods beginning on or after 1 July 2009);
IFRIC 18 -	Transfers of Assets from Customers (effective for accounting periods beginning on or after 1 July 2009);
IFRIC 19 -	Extinguishing Financial Liabilities with Equity Instruments (effective for accounting periods beginning on or after 1 July 2010);

Adoption of new and revised standards (continued)

Revised IAS 1 will have the impact that all items of income and expense (including those recognised outside of profit or loss) must be presented either in a single statement as a statement of comprehensive income; or in two statements as a separate income statement and a statement of comprehensive income.

Revised IAS 23 eliminates the previously available option to expense all borrowing costs when incurred. This revision will not have any impact on these Financial Statements because it has always been the Company's accounting policy to capitalise borrowing costs incurred on qualifying assets.

Revised IFRS 3 states that all acquisition-related costs are to be recognised as period expenses. Implementation may also mean a change in accounting for the recognition of goodwill related to the minority share of the purchased companies, step acquisitions and partial disposal of shares in subsidiaries.

It is the management's assessment that the adoption of those new and revised standards and interpretations will have no material impact on the Financial Statements. The above new or revised standards and interpretations have not yet been approved by the EU.

2. Significant accounting policies

Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Icelandic disclosure requirements according to Icelandic laws.

Basis of preparation

The Consolidated Financial Statements are prepared under the historical cost basis except for certain financial instruments. These Financial Statements are presented in euros which is the functional currency of the Company.

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 activities.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Company except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and 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.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Foreign currencies

Transactions in currencies other than euros 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 items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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 Company's 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.

Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Property, plant and equipment

Property, plant and equipment are recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the company and the cost of the asset can be measured in a reliable manner. Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy.

Depreciation is charged so as to write off the cost or valuation of assets, other than properties under construction, over their estimated useful lives, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible assets

At each balance sheet date, the company reviews the carrying amounts of its tangible 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.

2. Significant accounting policies (continued)

Financial assets

Accounts receivable and other receivables are valued at nominal value less any impairment losses.

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Financial liabilities

Long-term liabilities

Long-term liabilities are valued at amortised cost 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 and other liabilities

Accounts payable and other liabilities are valued at fair value.

3. Revenue

Net sales are specified as follows:

	31.12.2009	31.12.2008
Lease of bandwidth - Farice 1 and Danice	5.179.232	6.666.493
Lease of bandwidth - Cantat	633.000	1.899.000
	<u>5.812.232</u>	<u>8.565.493</u>

Invoices amounting to EUR 1.266.000 were not made in connection with the lease of bandwidth on Cantat-3 in 2009 due to uncertainty as regards collections.

4. Salaries

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

	31.12.2009	31.12.2008
Salaries.....	242.298	286.120
Pension fund.....	27.369	34.213
Salary-related expenses	34.302	38.380
Other employee expenses.....	(311)	2.429
	<u>303.658</u>	<u>361.142</u>
Average number of positions.....	3,0	1,3
Salary and related expenses to Board of directors.....	52.086	85.323
Salary and related expenses to Guðmundur Gunnarsson, CEO.....	95.135	128.283

5. Financial income / (expenses)

	31.12.2009	31.12.2008
Interest income.....	261.576	122.899
	<u>261.576</u>	<u>122.899</u>
Interest expenses and borrowing costs.....	(8.253.787)	(3.399.602)
Exchange rate differences.....	(1.409.972)	(2.944.006)
Fair value changes of interest rate swaps.....	(284.240)	(733.261)
Impairment of bonds receivables.....	0	(87.209)
Capitalized interest expenses and borrowing costs.....	3.352.202	1.670.079
	<u>(6.595.797)</u>	<u>(5.493.999)</u>

6. Income tax

Income tax is specified as follows:

	2009	2008
Deferred tax revenue.....	(807.206)	95.349
	<u>(807.206)</u>	<u>95.349</u>

	2009		2008	
	Amount	%	Amount	%
Net loss before tax	(13.825.743)		(4.067.671)	
Tax at the rate of 15%	2.073.861	15,0%	610.151	15,0%
Effect of diff. tax rates of other jurisdictions	443	0,0%	10.760	-0,3%
Change in tax rate	526.370	-3,8%	(108.442)	2,7%
Exchange differences	(105.632)	0,8%	(453.932)	11,2%
Current year losses for which no deferred tax asset was recognised	(2.073.861)	15,0%		0,0%
Impairment of tax asset	(1.228.387)	8,9%		0,0%
Other items	0	0,0%	36.812	-0,9%
Income tax according to income statement	<u>(807.206)</u>	5,8%	<u>95.349</u>	27,7%

In December 2009 the Icelandic Parliament approved to increase the income tax rate from 15% to 18% as of 1 January 2010. The effect on the Income Statement due to changes in tax rates amount to 526.370.

A deferred tax asset has not been recognised in respect of tax losses on the operation in 2009 due to uncertainty of when the tax loss can be utilized against future profits. Tax assets recognised in previous years have been impaired for the same reason.

7. Earnings per share

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

	31.12.2009	31.12.2008
Net loss for the period.....	(14.632.949)	(3.972.322)
Total average number of shares including potential shares	30.886.405	16.972.983
Basic and diluted net loss per share	(0,47)	(0,23)

8. Property, plant and equipment

	Pop/ Bach./CS	Farice 1+upgrade	Cantat Danice	Common Items	Total
Cost					
At January 1, 2008.....	8.584.311	34.544.546	23.059.794	4.411.748	70.600.399
Additions.....	6.267.082	3.056.660	46.950.131	58.988	56.332.861
Disposals.....	0	0	0	(40.161)	(40.161)
At January 1, 2009.....	14.851.393	37.601.206	70.009.925	4.430.575	126.893.099
Additions.....	2.386.722	9.277.781	20.840.636		32.505.139
Disposals.....				(4.719)	(4.719)
At December 31, 2009.....	17.238.115	46.878.987	90.850.561	4.425.856	159.393.519
Accumulated depreciation					
At January 1, 2008.....	2.314.632	6.908.851	3.782.842	3.070.269	16.076.594
Charge for the year.....	804.743	1.727.227	972.950	719.499	4.224.419
Disposals.....	0	0	0	(5.356)	(5.356)
At January 1, 2009.....	3.119.375	8.636.078	4.755.792	3.784.412	20.295.657
Charge for the year.....	870.681	1.865.989	5.886.320	194.282	8.817.272
Disposals.....					
At December 31, 2009.....	3.990.056	10.502.067	10.642.112	3.978.694	29.112.929
Carrying Amount					
At December 31, 2009.....	13.248.059	36.376.920	80.208.449	447.162	130.280.594
At January 1, 2009.....	11.732.018	28.965.128	65.254.133	646.163	106.597.442

The following useful lives are used in the calculation of depreciation.

Point of Presence (PoP).....	10 years
Backhaul.....	10 years
Cable stations.....	10 years
Farice 1 and Danice.....	20 years
Cantat.....	0 years
Common items.....	5-10 years

Impairment of tangible assets

As the Company's investment in Danice was not completed until 2009 and the project's revenue basis has not been fully negotiated, the Danice investment was not tested for impairment at year-end 2009. The management decided to impair the Cantat subseacable and reduce the book value of Cantat to zero. the impairment of Cantat amounted to EUR 5,0 and is included in depreciation in the statement of comprehensive income.

9. Share capital

Common stock is as follows:

	Shares	Ratio	Nominal value
Total share capital January 1, 2009.....	30.886.405	100,0%	30.886.405
Paid in share capital	0	0,0%	0
Total share capital at December 31, 2009.....	30.886.405	100%	30.886.405

Each share of one euro carries one vote.

10. Long term liabilities

	Currency	Nominal interest rate	Year of maturity	31.12.2009	31.12.2008
Secured bond issue, indexed.....	ISK	5,50%	2034	28.557.702	0
Secured bank loans.....	EUR	Libor+0,18-1,5%	2011-2015	23.652.083	24.966.666
Secured bank loans.....	EUR	Euribor+1,5%	2010	2.413.332	3.560.000
Finance lease liabilities.....	EUR	Libor+3,5%	2014	4.555.982	3.894.823
Finance lease liabilities.....	CHF	Libor+3,5%	2014	736.997	944.154
Finance lease liabilities.....	JPY	Libor+3,5%	2014	961.232	1.293.165
Finance lease liabilities.....	USD	Libor+3,5%	2014	159.627	209.476
				<u>61.036.955</u>	<u>34.868.284</u>
Current maturity.....				(32.479.253)	(7.334.991)
Long term liabilities total.....				<u>28.557.702</u>	<u>27.533.293</u>

Aggregated annual maturities are as follows

	31.12.2009	31.12.2008
Current and due maturities.....	32.479.253	7.334.991
2011-2010.....	7.798.021	8.688.324
2012-2011.....	7.088.605	8.083.324
2013-2012.....	4.307.934	3.618.324
2014-2013.....	4.345.247	3.618.324
2015-2014.....	3.086.648	3.524.997
later.....	1.931.247	
	<u>61.036.955</u>	<u>34.868.284</u>

Guarantees on longterm liabilities:

	31.12.2009	Guarantor
Secured bond issue, indexed.....	28.557.702	Icelandic State
Secured bank loans A-term.....	9.400.000	Icelandic State
Secured bank loans B-term.....	9.400.000	Skipti hf
Secured bank loans C-term.....	4.700.000	Foroya Tele
Secured bank loans D-term.....	152.083	
Secured bank loans A-term.....	2.413.332	
Finance lease liabilities.....	6.413.838	Leased equipment
	<u>61.036.955</u>	

The Bank loans are also guaranteed with 1st. ranking securities in the Farice cable, landing stations, accounts receivables and Indefeasable Right of Use in the Cantat 3 cable. The Icelandic State has a 1st. ranking security in the Danice cable system as collateral against its guarantee of the secured bond. Although a final decision has not been made regarding the fee for the State guarantee, the Company has accrued a 0,5% annual expense.

According to IAS1, when an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach.

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.

At the end of 2009, the Company was in breach of some of its loan agreements and therefore the full amount of the relevant loans can be called in. Accordingly, these loans are classified as short term loans in the balance sheet. Failure to reach an agreement on new terms with the Company's creditors will result in insolvency.

The Company has been working on a restructuring plan for the Company and its subsidiary. The plan entails standstill agreements signed with the creditors of the Company and its subsidiary, for the postponement of financial payments. This work is expected to be finished in the second quarter of 2010. The management is confident that the restructuring plan will be completed successfully, securing the future operations of the company.

11. Short-term liabilities

In the year 2008 the Company entered into a bridge loan agreement with Kaupthing bank and Landsvirkjun to finance the investments in Farice and Danice. The outstanding amount of EUR 44,0 million is included in the Company's current liabilities at the end of the year. The Company is negotiating a refinance on these loans. In 2009 the company received a EUR 838 thousand loan from the Icelandic State in order to fulfill interest payment on EFAR 09 bond offering.

12. Deferred tax

Deferred tax assets and liabilities are attributable to the following:

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 deferred tax liabilities and assets.

2009	Assets	Liabilities	Net
Non-current assets.....	0	1.652.034	(1.652.034)
Interest rate swaps.....	183.150	0	183.150
Exchange difference of losses.....	(56.454)	0	(56.454)
Tax loss carry-forwards.....	4.894.890	0	4.894.890
Impairment of tax asset.....	(3.369.552)		(3.369.552)
Tax assets liabilities.....	<u>1.652.034</u>	<u>1.652.034</u>	<u>0</u>
2008			
Non-current assets.....	0	1.215.026	(1.215.026)
Interest rate swaps.....	109.989	0	109.989
Exchange difference of losses.....	(453.932)	0	(453.932)
Tax loss carry-forwards.....	2.366.175	0	2.366.175
Tax assets liabilities.....	<u>2.022.232</u>	<u>1.215.026</u>	<u>807.206</u>

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

Available for the year 2012.....	16.634
Available for the year 2013.....	1.356.066
Available for the year 2014.....	2.642.771
Available for the year 2015.....	2.571.051
Available for the years 2016-2019.....	19.928.139
	<u>26.514.661</u>

The Company will not pay income tax in the year 2010 due to tax loss carry-forward. A tax asset, in excess of tax liabilities due to temporary differences, has not been recognised in the financial statements because of uncertainty of when the tax loss can be utilized against future profits.

13. Financial risk

Categories of financial instruments

Financial assets	31.12.2009	31.12.2008
Bank deposits and cash	258.277	655.022
Loans and receivables	1.109.557	2.872.056
Financial liabilities	31.12.2009	31.12.2008
Other financial liabilities at amortised cost	120.096.402	84.791.731

Financial risk management objectives

The Company's management monitors and manages the financial risks relating to the operations of the Company. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company seeks to minimise the effects of these risks for example by using derivative financial instruments to hedge these risk exposures. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has mainly floating rate interest bearing financial instruments.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates at the balance sheet date. The analyses is prepared assuming the amount outstanding at the balance sheet date was outstanding for the whole year. The analysis assumes that all variables other than basis points, are held constant. The sensitivity analysis takes into account tax effects. A positive number below indicates an increase in profit and other equity. An decrease in basis points would have an opposite impact on income statement and equity. In the analysis below the effects of 50 and 100 basis points increase on P/L and equity are demonstrated.

	31.12.2009		31.12.2008	
	50 bps.	100 bps.	50 bps.	100 bps.
Effects on P/L and equity	(323.482)	(646.964)	(382.503)	(657.007)

Foreign currency risk

Foreign currency risk exposure does arise when there is a difference between assets and liabilities denominated in foreign currency. The majority of the Company's assets and liabilities are denominated in EUR.

Foreign currency risk 31.12.2009

	Assets	Liabilities	Net balance
JPY	0	961.231	(961.231)
USD	1.404	5.597.108	(5.595.704)
CHF	0	736.997	(736.997)
NOK	94		94
ISK	22.080	29.881.374	(29.859.294)
GBP	85.471	9.477	75.994
DKK	74.076	125.542	(51.466)

Foreign currency risk 31.12.2008

	Assets	Liabilities	Net balance
JPY	0	1.108.502	(1.108.502)
USD	0	4.107.565	(4.107.565)
CHF	0	809.331	(809.331)
NOK	1.982	218.422	(216.440)
ISK	839.081	191.196	647.885
GBP	442.517	125.043	317.474
DKK	201.762	101.016	100.746

Sensitivity analysis

The table below shows what effects 5% and 10% increase of the relevant foreign currency rate against the EUR would have on P/L and equity. The foreign currency assets and liabilities in the sensitivity analysis are mainly foreign currency borrowings and foreign currency bank balances. The analysis is prepared assuming the amount outstanding at the balance sheet date was outstanding for the whole year. The analysis assumes that all variables other than the relevant foreign currency rate, are held constant. The sensitivity analysis does not take into account tax effects. A positive number below indicates an increase in profit and other equity. A decrease of the relevant foreign currency rate against the EUR would have an opposite impact on P/L and equity.

Effects on P/L and equity	31.12.2009		31.12.2008	
	5%	10%	5%	10%
JPY	(40.852)	(81.705)	(47.111)	(94.223)
USD	(237.817)	(475.635)	(174.364)	(348.728)
CHF	(31.322)	62.645	(34.397)	68.793
NOK	4	8	(9.199)	(18.397)
DKK	(2.187)	(4.375)	4.282	8.563
ISK	(1.269.020)	(2.538.040)	26.766	53.532
GBP	3.230	6.459	13.493	26.985

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The Company monitors the credit risk development on a regular basis.

Maximum credit risk:

	Carrying amounts	
	31.12.2009	31.12.2008
Accounts receivables	579.015	1.701.021
Other receivables	530.542	1.171.035
Cash and cash equivalents	258.277	655.022
	<u>1.367.834</u>	<u>3.527.078</u>

Liquidity risk management

On a regular basis the Company monitors the liquidity balance, development and the effects of market environment. The following tables detail the Company's remaining contractual maturity for its financial liabilities and assets. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

As explained in Note 10, some of the Company's long term loan agreements have been classified as short term liabilities at the end of 2009. The Company's solvency depends on the successful completion of the restructuring plan that is being worked on and is expected to be finished in May 2010.

	Carrying amount	Contractual cash flows	Within one year	2011	2012+
Liabilities 31.12 2009					
Non-interest bearing	14.248.230	16.400.919	16.400.919	0	0
Floating interest rates	76.431.173	81.239.872	61.886.023	8.310.063	11.043.786
Fixed interest rates	29.416.999	50.208.710	859.297	1.194.778	49.013.932
	120.096.402	147.849.501	79.146.239	9.504.841	60.057.718
Assets 31.12 2009					
Non-interest bearing	3.102.768	3.102.768	3.102.768	0	0
Floating interest rates	258.277	258.277	258.277	0	0
	3.361.045	3.361.045	3.361.045	0	0
Net balance 31.12 2009	(116.735.357)	(144.488.456)	(75.785.194)	(9.504.841)	(60.057.718)
Liabilities 31.12 2008					
Non-interest bearing	6.841.815	6.841.815	6.841.815	0	
Floating interest rates	77.949.916	79.516.544	50.733.737	9.032.170	19.750.637
	84.791.731	86.358.359	57.575.552	9.032.170	19.750.637
Assets 31.12 2008					
Non-interest bearing	2.781.355	2.781.355	2.781.355	0	0
Floating interest rates	655.022	655.022	655.022	0	0
Fixed interest rates	90.701	90.701	90.701	0	0
	3.527.078	3.527.078	3.527.078	0	0
Net balance 31.12 2008	(81.264.653)	(82.831.281)	(54.048.474)	(9.032.170)	(19.750.637)

14. Other matters

In the year 2004 the Company entered into Interest Rate Swap Agreements with Landsbanki Íslands hf. and Glitnir hf. In the year end the contracts' estimated fair value is negative by EUR 1,0 million and the principal amounting to EUR 23,5 million. In October 2008, the Icelandic Financial Supervisory Authority (the "FSA") used powers granted by the Icelandic Parliament, to take control of the Banks. Substantial part of the Banks' assets and operations were transferred to new banks. The transfer of assets from the Banks to the New Banks included all long term loan agreements. However, as a general rule, no derivative contracts were transferred from the Banks to the New Banks, including Interest Rate Swap Agreements. In November 2008, the District Court of Reykjavik granted the Banks a moratorium. The legal position of the agreements is uncertain and therefore the final treatment of the Interest Rate Swap Agreements is subject to uncertainty.

15. Approval of Consolidated Financial Statements

The consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 30 April, 2010.