

# Farice hf.

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Financial Statements

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2008

Farice hf.  
Skógarhlíð 12  
105 Reykjavík  
kt. 580902-2190

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# Farice hf.

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## Financial Statements

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2008

Approved on board meeting March 3, 2009

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# Independent Auditor's report

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To the Board of Directors and shareholders of Farice hf.

We have audited the accompanying Financial Statements of Farice hf., which comprise the Balance Sheet as at December 31, 2008, the Income Statement and 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 European Union. 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.

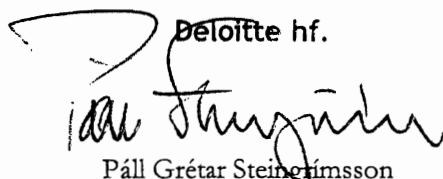
## Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of Farice hf. as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

## Explanatory Paragraph

Without further qualifying our opinion we would like to draw attention to note nr. 13 in the Financial Statements which details the Company's intended refinancing negotiations. If the Company will not be able to negotiate its refinancing it is a general uncertainty about the going concern of the Company.

Kópavogur, March 3, 2009

  
Deloitte hf.  
Páll Grétar Steingrímsson  
State Authorized Public Accountant

# Report by the Board of Directors and Managing Director

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It is the opinion of the Board of Directors and the Managing Director that these Financial Statements of Farice hf. present the necessary information to show the financial position of Farice hf. at year-end, the operational results for the year and the financial development during the year 2008. Farice hf. Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

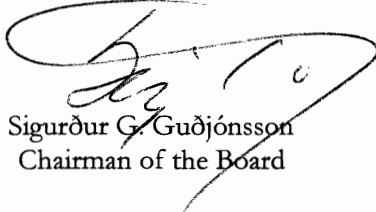
The Company's net loss from operations amounted to EUR 1.697.532. The Board recommends that the loss will be carried forward to next year. According to the Balance Statement the Company's assets amount to EUR 35.381.040, the year's end book value of equity is EUR 8.614.152 and the Company's equity ratio is 24,35%.

At year-end, shareholders in the company numbered 7. Two shareholders owned more than 10% of shares in the Company. Eignarhaldsfélagið Farice ehf. 79,9% and Telefonverkið P/F 19,9%.

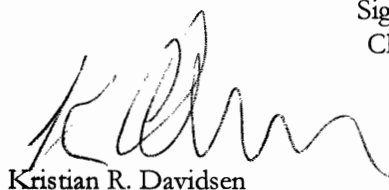
The Board of Directors and Managing Director of Farice hf. hereby confirm the Financial Statements for the year 2008 with their signatures.

Reykjavík, March 3, 2009

## Board of Directors



Sigurður G. Guðjónsson  
Chairman of the Board

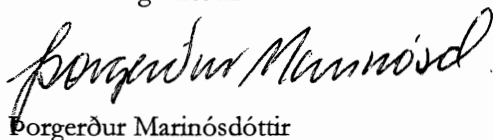


Kristian R. Davidsen

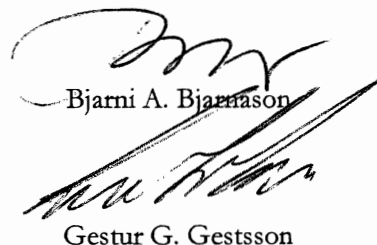
Friðrik Friðriksson



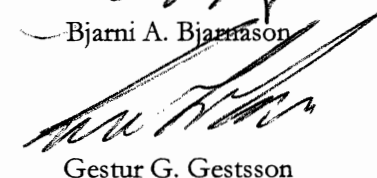
Páll Ásgrímsson



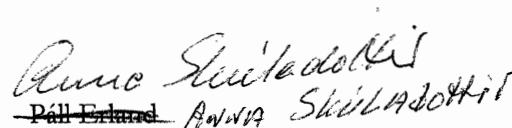
Þorgerður Marinósðóttir



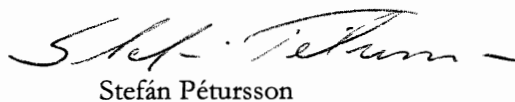
Bjarni A. Bjarnason



Gestur G. Gestsson

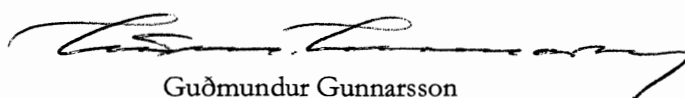


~~Páll Erlendur~~ Anna Skúladóttir



Stefán Pétursson

## Managing Director



Guðmundur Gunnarsson

# Income Statement for the year 2008

|                                | Notes | 2008                      | 2007                    |
|--------------------------------|-------|---------------------------|-------------------------|
| Operating revenue .....        | 4     | 6.693.881                 | 6.117.718               |
| Operating expenses .....       |       | (2.251.425)               | (2.076.300)             |
| Administrative expenses .....  |       | (756.260)                 | (491.946)               |
| Depreciation .....             | 9     | (3.251.467)               | (3.257.365)             |
| <b>Operating profit</b>        |       | <u>434.729</u>            | <u>292.107</u>          |
| Financial income .....         | 6     | 45.475                    | 46.538                  |
| Financial expenses .....       | 6     | (1.906.888)               | (1.318.798)             |
| Net loss before tax .....      |       | <u>(1.426.684)</u>        | <u>(980.152)</u>        |
| Income tax .....               | 7     | (270.848)                 | 175.896                 |
| <b>Net loss for the year</b>   |       | <u><u>(1.697.532)</u></u> | <u><u>(804.256)</u></u> |
| Basic net loss per share ..... | 8     | (0,12)                    | (0,06)                  |

# Balance Sheet

| Assets                                      | Notes | 31.12.2008               | 31.12.2007               |
|---------------------------------------------|-------|--------------------------|--------------------------|
| <b>Non-current assets</b>                   |       |                          |                          |
| Point of Presence .....                     | 9     | 237.956                  | 271.121                  |
| Backhaul .....                              | 9     | 4.293.658                | 4.975.809                |
| Cable stations .....                        | 9     | 547.244                  | 636.669                  |
| Farice 1 .....                              | 9     | 25.908.468               | 27.635.695               |
| Common items .....                          | 9     | 646.162                  | 1.341.479                |
| Deferred tax asset .....                    | 14    | 385.082                  | 655.930                  |
| Prepaid lease .....                         |       | 269.952                  | 314.932                  |
|                                             |       | <u>32.288.522</u>        | <u>35.831.635</u>        |
| <b>Current assets</b>                       |       |                          |                          |
| Accounts receivable .....                   |       | 132.631                  | 80.357                   |
| Related parties receivable (E-Farice) ..... |       | 2.262.431                | 1.581.326                |
| Other receivables .....                     |       | 295.084                  | 287.061                  |
| Bank deposits and cash .....                |       | 402.372                  | 245.766                  |
|                                             |       | <u>3.092.518</u>         | <u>2.194.510</u>         |
| <b>Total assets</b>                         |       | <u><u>35.381.040</u></u> | <u><u>38.026.145</u></u> |

## December 31, 2008

| Equity and liabilities              | Notes | 31.12.2008               | 31.12.2007               |
|-------------------------------------|-------|--------------------------|--------------------------|
| <b>Equity</b>                       |       |                          |                          |
| Share capital .....                 |       | 13.689.662               | 13.689.662               |
| Loss carry-forward .....            | 12    | (5.075.510)              | (3.377.978)              |
| Total equity                        |       | <u>8.614.152</u>         | <u>10.311.684</u>        |
| <b>Non-current liabilities</b>      |       |                          |                          |
| Non-current liabilities .....       | 13    | <u>20.679.999</u>        | <u>24.966.666</u>        |
| <b>Current liabilities</b>          |       |                          |                          |
| Accounts payable .....              |       | 611.262                  | 179.859                  |
| Current maturities .....            | 13    | 4.286.667                | 2.200.000                |
| Interest rate swaps .....           |       | 733.261                  | 0                        |
| Other liabilities .....             |       | 455.699                  | 367.936                  |
|                                     |       | <u>6.086.889</u>         | <u>2.747.794</u>         |
| Total liabilities                   |       | <u>26.766.888</u>        | <u>27.714.461</u>        |
| <b>Total equity and liabilities</b> |       | <u><u>35.381.040</u></u> | <u><u>38.026.145</u></u> |

## Statement of changes in Equity for the year ended December 31, 2008

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|                                   | Share<br>capital | Loss<br>carry-forward | Total<br>equity |
|-----------------------------------|------------------|-----------------------|-----------------|
| Balance at January 1, 2007.....   | 13.689.662       | (2.618.231)           | 11.071.431      |
| Other changes in equity.....      |                  | 44.510                | 44.510          |
| Net loss for the year.....        |                  | (804.256)             | (804.256)       |
| Balance at January 1, 2008.....   | 13.689.662       | (3.377.978)           | 10.311.684      |
| Net loss for the year.....        | 0                | (1.697.532)           | (1.697.532)     |
| Balance at December 31, 2008..... | 13.689.662       | (5.075.510)           | 8.614.152       |



## Statement of Cash Flows for the year 2008

|                                                            | Notes | 2008             | 2007               |
|------------------------------------------------------------|-------|------------------|--------------------|
| <b>Operating activities</b>                                |       |                  |                    |
| Operating profit .....                                     |       | 434.729          | 292.107            |
| Items not affecting cash .....                             |       | 3.259.893        | 3.248.540          |
| Changes in current assets and liabilities .....            |       | (211.893)        | (1.331.674)        |
| Net cash provided by operating activities before interest  |       | <u>3.482.729</u> | <u>2.208.973</u>   |
| Paid in interest income .....                              |       | 45.475           | 136.861            |
| Paid interest expenses and exchange rate differences ..... |       | (1.138.989)      | (1.321.677)        |
| Net cash from operating activities                         |       | <u>2.389.215</u> | <u>1.024.157</u>   |
| <b>Investing activities</b>                                |       |                  |                    |
| Investment in fixed assets .....                           |       | (58.987)         | (1.287.011)        |
| Disposal of assets .....                                   |       | 26.379           | 17.098             |
|                                                            |       | <u>(32.608)</u>  | <u>(1.269.913)</u> |
| <b>Financing activities</b>                                |       |                  |                    |
| Long-term liabilities repaid .....                         |       | (2.200.000)      | (2.200.000)        |
| Increase in cash and cash equivalents .....                |       | 156.607          | (2.445.756)        |
| Cash and cash equivalents at beginning of the year .....   |       | 245.766          | 2.691.522          |
| Cash and cash equivalents at end of the year .....         |       | <u>402.372</u>   | <u>245.766</u>     |

# Notes to Financial Statements

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## 1. General information

Farice hf. is a limited company incorporated in Iceland. Farice is the communications link for the nations of Iceland and the Faroe Islands. The Company's mission is to assure continuous and secure connectivity for enterprise, governments, and the citizens of Iceland.

The company has operations in Iceland, the Faroe Islands and the United Kingdom. The income originates in Iceland and the Faroe Islands while the operating expenses originate in all three countries.

## 2. Adoption of new and revised standards

### Standards and interpretations effective in the current period

The 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:

|                     |                                                                                           |
|---------------------|-------------------------------------------------------------------------------------------|
| IAS 39 (revised) -  | Financial Instruments: Recognition and Measurement                                        |
| IFRIC 11, IFRS 2 -  | Group and treasury share transactions                                                     |
| IFRIC 12 -          | Service concession arrangements                                                           |
| IFRIC 14 - IAS 19 - | The limit on a defined benefit asset, minimum funding requirements and their interaction. |

The adoption of the new and revised standard and interpretations has not led to changes in the accounting policies.

### 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 2 (revised 2008) - | Share-based Payment (effective for accounting periods beginning on or after 1 January 2009);                                |
| IFRS 3 (revised 2008) - | Business Combinations (effective for accounting periods beginning on or after 1 July 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 27 (revised 2008) - | Consolidated and Separate Financial Statements;                                                                             |
| IAS 39 (revised 2008) - | Financial Instruments: Recognition and Measurement (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); |
| IFRIC 17 - | Non-cash Assets to Owners (effective for accounting periods beginning on or after 1 July 2009);                            |

# Notes to Financial Statements

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## 2. 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 Group'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.

## 3. Significant accounting policies

### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

### Basis of preparation

The Financial Statements are prepared under the historical cost basis except for certain financial instruments. These Financial Statements are presented in euros since that is the functional currency in which the majority of the Company's transactions are denominated.

The principal accounting policies adopted are set out below.

### 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.

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

### 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.

# Notes to Financial Statements

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## 3. Significant accounting policies (continued)

### 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.

### 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.

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.

# Notes to Financial Statements

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## 3. Significant accounting policies (continued)

### 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.

### 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 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 and other liabilities

Accounts payable and other liabilities are valued at fair value.

### 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.

# Notes to Financial Statements

## 4. Revenue

Net sales are specified as follows:

|                                     | 31.12.2008       | 31.12.2007       |
|-------------------------------------|------------------|------------------|
| Lease of bandwidth - Farice 1 ..... | 6.576.529        | 6.008.885        |
| Other income .....                  | 117.352          | 108.833          |
|                                     | <u>6.693.881</u> | <u>6.117.718</u> |

## 5. Salaries

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

|                                  | 31.12.2008     | 31.12.2007     |
|----------------------------------|----------------|----------------|
| Salaries.....                    | 286.120        | 172.744        |
| Pension fund.....                | 34.213         | 24.080         |
| Salary-related expenses .....    | 38.380         | 16.470         |
| Other employee expenses.....     | 2.429          | 5.066          |
|                                  | <u>361.142</u> | <u>218.361</u> |
| Average number of positions..... | 2,3            | 1,3            |

## 6. Financial income / (expenses)

|                                | 31.12.2008         | 31.12.2007         |
|--------------------------------|--------------------|--------------------|
| Interest income.....           | 45.475             | 46.538             |
| Interest expenses.....         | (1.397.114)        | (1.397.526)        |
| Interest rate swaps.....       | (733.261)          | 0                  |
| Exchange rate differences..... | 223.487            | 78.728             |
|                                | <u>(1.906.888)</u> | <u>(1.318.798)</u> |

## 7. Income tax

Income tax is specified as follows:

|                                        | 2008    | 2007    |
|----------------------------------------|---------|---------|
| Deferred tax (expenses) / revenue..... | 270.848 | 175.896 |

|                                                            | 2008             |      | 2007           |      |
|------------------------------------------------------------|------------------|------|----------------|------|
|                                                            | Amount           | %    | Amount         | %    |
| Net loss before tax .....                                  | (1.426.684)      |      | (980.152)      |      |
| Tax at the rate of 15%/18% .....                           | 214.003          | -15% | 176.427        | 18%  |
| Effect of different tax rates of other jurisdictions ..... | 10.760           | -1%  | (531)          | 0%   |
| Change in tax rate .....                                   | (99.121)         | 7%   | 0              | 0%   |
| Exchange differences .....                                 | <u>(396.490)</u> | 28%  | <u>0</u>       |      |
| Income tax according to income statement .....             | <u>(270.848)</u> | 19%  | <u>175.896</u> | -18% |

During the year the income tax changed from 18% til 15%. The effect on the Income Statement due to changes in tax rates amount to 99.121.

# Notes to Financial Statements

## 8. Earnings per share

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

|                                                                 | 31.12.2008  | 31.12.2007 |
|-----------------------------------------------------------------|-------------|------------|
| Net loss for the year.....                                      | (1.697.532) | (804.256)  |
| Total average number of shares including potential shares ..... | 13.689.662  | 13.689.662 |
| Basic net loss per share .....                                  | (0,12)      | (0,06)     |

## 9. Property, plant and equipment

|                                 | Point of<br>presence | Backhaul  | Cable stations | Farice 1   | Common Items |
|---------------------------------|----------------------|-----------|----------------|------------|--------------|
| <b>Cost</b>                     |                      |           |                |            |              |
| At January 1, 2007.....         | 249.678              | 5.710.904 | 993.609        | 34.544.546 | 4.411.748    |
| Additions.....                  | 115.991              | 1.128.049 |                |            |              |
| At January 1, 2008.....         | 365.669              | 6.838.953 | 993.609        | 34.544.546 | 4.411.748    |
| Additions.....                  |                      |           |                |            | 58.988       |
| Disposals.....                  |                      |           |                |            | (40.161)     |
| At December 31, 2008.....       | 365.669              | 6.838.953 | 993.609        | 34.544.546 | 4.430.575    |
| <b>Accumulated depreciation</b> |                      |           |                |            |              |
| At January 1, 2007.....         | 67.008               | 1.169.977 | 267.515        | 5.181.624  | 2.380.172    |
| Charge for the year.....        | 27.540               | 693.167   | 89.425         | 1.727.227  | 720.006      |
| At January 1, 2008.....         | 94.548               | 1.863.144 | 356.940        | 6.908.851  | 3.070.270    |
| Charge for the year.....        | 33.165               | 682.151   | 89.425         | 1.727.227  | 719.499      |
| Disposals.....                  |                      |           |                |            | (5.356)      |
| At December 31, 2008.....       | 127.713              | 2.545.295 | 446.365        | 8.636.078  | 3.784.413    |
| <b>Carrying Amount</b>          |                      |           |                |            |              |
| At December 31, 2008.....       | 237.956              | 4.293.658 | 547.244        | 25.908.468 | 646.162      |
| At January 1, 2008.....         | 271.121              | 4.975.809 | 636.669        | 27.635.695 | 1.341.479    |

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.....                | 20 years   |
| Common items.....            | 5-10 years |

# Notes to Financial Statements

## 10. Property, plant and equipment by location

|                                 | Icelandic<br>Branch Iceland | Icelandic<br>Branch<br>Scotland | Faroe Branch | Farice 1   | Common Items |
|---------------------------------|-----------------------------|---------------------------------|--------------|------------|--------------|
| <b>Cost</b>                     |                             |                                 |              |            |              |
| At January 1, 2007.....         | 212.876                     | 5.687.485                       | 8.428.320    | 27.639.085 | 3.937.929    |
| Additions.....                  | 83.719                      | 923.927                         | 236.394      |            | 42.971       |
| Disposal.....                   |                             |                                 |              |            | (38.181)     |
| At January 1, 2008.....         | 296.595                     | 6.611.412                       | 8.664.714    | 27.639.085 | 3.942.719    |
| Additions.....                  |                             |                                 |              |            | 58.988       |
| Disposal.....                   |                             |                                 |              |            | (40.161)     |
| At December 31, 2008.....       | 296.595                     | 6.611.412                       | 8.664.714    | 27.639.085 | 3.961.546    |
| <b>Accumulated depreciation</b> |                             |                                 |              |            |              |
| At January 1, 2007.....         | 48.477                      | 1.226.655                       | 1.981.924    | 3.800.532  | 2.008.707    |
| Charge for the year.....        | 22.494                      | 658.657                         | 128.981      | 1.727.227  | 720.006      |
| Disposal.....                   |                             |                                 |              |            | (29.908)     |
| At January 1, 2008.....         | 70.971                      | 1.885.312                       | 2.110.905    | 5.527.759  | 2.698.805    |
| Charge for the year.....        | 26.896                      | 648.320                         | 566.723      | 1.381.954  | 627.574      |
| Disposal.....                   |                             |                                 |              |            | (5.356)      |
| At December 31, 2008.....       | 97.867                      | 2.533.632                       | 2.677.628    | 6.909.713  | 3.321.023    |
| <b>Carrying Amount</b>          |                             |                                 |              |            |              |
| At December 31, 2008.....       | 198.728                     | 4.077.780                       | 5.987.086    | 20.729.372 | 640.523      |
| At January 1, 2008.....         | 225.624                     | 4.726.100                       | 6.553.809    | 22.111.326 | 1.243.914    |

## 11. Share capital

Common stock is as follows:

|                                        | Shares     | Ratio  | Nominal value |
|----------------------------------------|------------|--------|---------------|
| Total share capital at period-end..... | 13.689.662 | 100,0% | 13.689.662    |

Each share of one euro carries one vote.

## 12. Loss carry-forward

|                              | 31.12.2008  | 31.12.2007  |
|------------------------------|-------------|-------------|
| Balance at January 1.....    | (3.377.978) | (2.618.230) |
| Other changes in equity..... | 0           | 44.509      |
| Net loss for the year.....   | (1.697.532) | (804.256)   |
| Balance at December 31.....  | (5.075.510) | (3.377.977) |



# Notes to Financial Statements

## 13. Long-term liabilities

|                                              | 31.12.2008        | 31.12.2007        |
|----------------------------------------------|-------------------|-------------------|
| Loans in EUR .....                           | 20.679.999        | 24.966.666        |
| Current maturities.....                      | 4.286.667         | 2.200.000         |
| Loans from credit institutions.....          | 24.966.666        | 27.166.666        |
| Aggregated annual maturities are as follows: |                   |                   |
| Current maturities.....                      | 4.286.667         | 2.200.000         |
| Installments 2010/2009.....                  | 5.640.000         | 7.106.666         |
| Installments 2011/2010.....                  | 6.815.000         | 5.640.000         |
| Installments 2012/2011.....                  | 2.350.000         | 2.820.000         |
| Installments 2013/2012.....                  | 2.350.000         | 2.350.000         |
| Installments later.....                      | 3.524.999         | 7.050.000         |
|                                              | <u>24.966.666</u> | <u>27.166.666</u> |

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.

In 2009 the Company intends to negotiate a refinancing on long term loans. At the year end the Company's current maturites of long term loans amounts to EUR 4,3 million.

## 14. Deferred tax

|                                     | Deferred tax<br>asset | Deferred tax<br>liabilities | Total          |
|-------------------------------------|-----------------------|-----------------------------|----------------|
| At January 1, 2007.....             | 1.849.806             | (1.369.773)                 | 480.033        |
| Calculated tax for the period.....  | 121.638               | 54.259                      | 175.897        |
| At January 1, 2008.....             | 1.971.444             | (1.315.514)                 | 655.930        |
| Effect on a change in tax rate..... | 43.124                | (142.245)                   | (99.121)       |
| Calculated tax for the period.....  | (34.313)              | 259.076                     | 224.763        |
| Exchange differences.....           | (396.490)             | 0                           | (396.490)      |
| At December 31, 2008.....           | <u>1.583.765</u>      | <u>(1.198.683)</u>          | <u>385.082</u> |

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 recognised:

|                            | 31.12.2008     | 31.12.2007     |
|----------------------------|----------------|----------------|
| Fixed tangible assets..... | (1.198.682)    | (1.315.513)    |
| Loss carry-forward.....    | 1.473.776      | 1.971.443      |
| Other.....                 | 109.988        | 0              |
|                            | <u>385.082</u> | <u>655.930</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.....       | 1.353.322        |
| Available for the year 2014.....       | 2.558.333        |
| Available for the year 2015.....       | 2.433.966        |
| Available for the years 2016-2018..... | 1.698.722        |
|                                        | <u>8.060.976</u> |

# Notes to Financial Statements

## 15. Financial risk

### 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 floating rate interest bearing financial instruments and has entered into a variety of interest rate swaps to hedge its exposure to interest rate fluctuations. The interest rate swaps are not active at year end.

### Sensitivity analysis

In the analysis below the effects of 50 and 100 basis points decrease on P/L and equity are demonstrated. 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 does not take into account tax effects. A positive number below indicates an increase in profit and other equity. An increase in basis points would have an opposite impact on income statement and equity.

|                                 | 31.12.2008 |           | 31.12.2007 |          |
|---------------------------------|------------|-----------|------------|----------|
|                                 | 50 bps.    | 100 bps.  | 50 bps.    | 100 bps. |
| Effects on P/L and equity ..... | (122.821)  | (245.643) | (17.105)   | (34.209) |

### 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 2008 | Assets  | Liabilities | Net balance |
|----------------------------------|---------|-------------|-------------|
|                                  |         |             |             |
| ISK .....                        | 10.059  | 150.722     | -140.663    |
| GBP .....                        | 434.693 | 55.810      | 378.883     |
| DKK .....                        | 61.676  | 99.879      | -38.203     |

| Foreign currency risk 31.12 2007 | Assets  | Liabilities | Net balance |
|----------------------------------|---------|-------------|-------------|
|                                  |         |             |             |
| ISK .....                        | 74.256  | 126.062     | (51.806)    |
| GBP .....                        | 308.385 | 89.664      | 218.721     |
| DKK .....                        | 27.421  | 123.296     | (95.875)    |

# Notes to Financial Statements

## 15. Financial risk (continued)

### 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 | 31.12.2008 |          | 31.12.2007 |         |
|---------------------------|------------|----------|------------|---------|
|                           | 5%         | 10%      | 5%         | 10%     |
| ISK .....                 | (7.033)    | (14.066) | (2.590)    | (5.181) |
| GBP .....                 | 18.944     | 37.888   | 10.936     | 21.872  |
| DKK .....                 | (1.910)    | (3.820)  | (4.794)    | (9.587) |

### 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. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Maximum credit risk:

|                                   | Carrying amounts |                  |
|-----------------------------------|------------------|------------------|
|                                   | 31.12 2008       | 31.12 2007       |
| Related parties receivables ..... | 0                | 1.581.326        |
| Accounts receivables .....        | 132.631          | 80.357           |
| Other receivables .....           | 295.084          | 287.061          |
| Cash and cash equivalents .....   | 402.372          | 245.766          |
|                                   | <u>830.087</u>   | <u>2.194.510</u> |

# Notes to Financial Statements

## 15. Financial risk (continued)

### Liquidity risk management

| Liabilities 31.12.2008        | Within<br>one year | 2010        | 2011+        | Total        |
|-------------------------------|--------------------|-------------|--------------|--------------|
| Non-interest bearing .....    | 1.800.222          | 0           | 0            | 1.800.222    |
| Floating interest rates ..... | 4.286.667          | 5.639.999   | 15.040.000   | 24.966.666   |
|                               | 6.086.889          | 5.639.999   | 15.040.000   | 26.766.888   |
| Assets 31.12.2008             |                    |             |              |              |
| Non-interest bearing .....    | 427.715            | 0           | 0            | 427.715      |
| Floating interest rates ..... | 402.372            | 0           | 0            | 402.372      |
|                               | 830.087            | 0           | 0            | 830.087      |
| Net balance 31.12 2008        | (5.256.802)        | (5.639.999) | (15.040.000) | (25.936.801) |

| Liabilities 31.12 2007        | Within<br>one year | 2009        | 2010+        | Total        |
|-------------------------------|--------------------|-------------|--------------|--------------|
| Non-interest bearing .....    | 547.794            | 0           | 0            | 547.794      |
| Floating interest rates ..... | 2.200.000          | 7.106.666   | 17.860.000   | 27.166.666   |
|                               | 2.747.794          | 7.106.666   | 17.860.000   | 27.714.460   |
| Assets 31.12 2007             |                    |             |              |              |
| Non-interest bearing .....    | 1.948.745          | 0           | 0            | 1.948.745    |
| Floating interest rates ..... | 245.766            | 0           | 0            | 245.766      |
|                               | 2.194.511          | 0           | 0            | 2.194.511    |
| Net balance 31.12 2007        | (553.283)          | (7.106.666) | (17.860.000) | (25.519.949) |

## 16. Events after the Balance Sheet date

In the year 2004 the Company made Interest Rate Swap Agreements with Landsbanki Íslands hf. and Glitnir hf. In the year end the contracts' estimated fair value is negative by EUR 0,7 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. On the January 27, 2009, Landsbanki Íslands hf. called in its agreement but Glitnir hf. has not made any announcement on this matter. The Company is checking its legal rights regarding the agreements and therefore the final treatment of the Interest Rate Swap Agreements is subject to uncertainty.

## 17. Approval of Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on March 3, 2009.