

Farice ehf.

Financial Statements

Year ended 31.12.2010

Farice ehf.
Smáratorgi 3
201 Kópavogur
Reg no. 511203-2950

Farice ehf.

Financial Statements

Year ended 31.12.2010

Approved on board meeting 29 April, 2011

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Independent Auditor's Report

To the Board of Directors and Shareholders of Farice ehf.

We have audited the accompanying financial statements of Farice ehf, which comprise the statement of financial position as at December 31, 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 principles 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 ehf. as at December 31, 2010, 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 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 regarding the importance of increased revenue from the data center industry for the future prospects of the Company. If future revenue fail to increase in line with budgets there is a risk that 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 statement are however prepared on a going concern basis.

Report on the Board of Directors report

Pursuant to the legal requirement under Article 106, Paragraph 1, Item 5 of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the Financial Statements.

Reykjavik, April 29, 2011.

KPMG ehf.

Report by the Board of Directors and the CEO

These Financial Statements for the year 2010 comprise the financial statements of Farice ehf (the Company). The 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 Statement of comprehensive Income, the Company's operating revenue amounted to EUR 6.7 million in the year 2010 (2009: EUR 5.8 million), and the loss of the year amounted to EUR 17.0 million (2009: EUR 14.6 million). According to the statement of financial position, the company's assets amounted to EUR 128.4 million at year end 2010 (at year end 2009: 131.9 million). Equity amounted to EUR 58.4 million at the end of 2010 (at year end 2009: 11.8 million), or 45.5% of total assets (at year end 2009: 8.9%).

Eignarhaldsfélagið Farice ehf. and its subsidiary, Farice hf., in cooperation with their largest creditors and shareholders, have been working on a financial restructuring of the companies since late 2009. At shareholders' meetings of both companies in December 2010 the merger of Farice hf. with its parent company, Eignarhaldsfélagið Farice ehf. was approved. Eignarhaldsfélagið Farice ehf.'s shareholders' meeting also approved a subsequent increase of share capital after the company's share capital had been reduced to adjust for accumulated losses. Furthermore, the name of the merged company was changed to Farice ehf., as well as the object of the company was sharpened.

The largest shareholders in Farice ehf., the Icelandic State and Landsvirkjun (The National Power Co.), provided the company with new share capital in Class A in the amount of EUR 11.0 million. Also, the company's largest unsecured creditors agreed as part of the financial restructuring of the company, to convert debt amounting to a total of EUR 52.7 million to share capital in Class B, which i.a. grants them priorities to payments from the company ahead of shareholders in Class A. The equity of the merged company was therefore raised by a total of EUR 63.7 million and amounted to a nominal value of EUR 75.5 million at 31 December, 2010.

At the end of 2010 there were five shareholders in the company, compared to six at the beginning of the year. The following shareholders held over 10% of the total nominal value of the outstanding shares: The Icelandic State with 28.1%, Landsvirkjun, which is owned by the Icelandic State with 26.7%, and Arionbank with 43.5%. Taking into account the different voting rights of the two classes of shares, the following shareholders hold over 10% of the total voting rights: The Icelandic State with 58.2%, Landsvirkjun with 21.4%, and Arionbank with 19.7%.

Applicable legal provisions do not permit payment of dividend for the financial year 2010. The Board of Directors refers to the financial statement regarding appropriation of the loss for the period.

Going concern

The new financial structure of the Company is designed to support the sustainability and growth of the Company in years to come. The agreements the Company has with its customers in the public telecommunications sector and the current and future agreements with the data center industry are the two main sources of revenue for the Company. Although the annual increase in international bandwidth demand from the public telecommunication sector is very high, the Company's future prospects are very much depending on the data center industry in Iceland, which is growing. The debt repayment structure renegotiated with the Company's creditors also plays an important part in the Company's future.

Statement of the Board of Directors and the CEO

According to the Board of Director's best knowledge, these Financial Statements comply with International Financial Reporting Standards 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 2010, operating performance and the cashflow for the year ended 31 December 2010 as well as describing the principal risk and uncertainty factors faced by the company. The report of the Board of Directors provides a clear overview of development and achievements in the company's operations and its situation.

The Board of Directors and CEO of Farice ehf., hereby confirm the Financial Statements of Farice ehf., for the year 2010 with their signatures.

Kópavogur 29 April, 2011

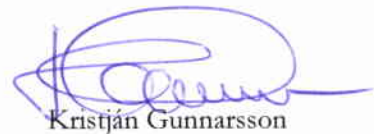
Board of directors



Karl Alvarsson



Egill Tryggvason



Kristján Gunnarsson




Pétur Örn Richter



Þorgerður Marinósdóttir

Chief Executive Officer



Guðmundur Gunnarsson

Statement of comprehensive income

	Notes	2010	2009
Operating revenue	4	6.691.021	5.812.232
Operating expenses		(4.449.182)	(3.760.119)
Administrative expenses	5	(1.326.871)	(726.364)
Depreciation	8	(7.729.509)	(8.817.272)
Operating loss		<u>(6.814.541)</u>	<u>(7.491.523)</u>
Financial income	6	4.884	261.576
Financial expenses	6	(10.141.242)	(6.595.797)
Net loss before tax		<u>(16.950.899)</u>	<u>(13.825.743)</u>
Income tax	12	0	(807.206)
Total comprehensive loss		<u>(16.950.899)</u>	<u>(14.632.949)</u>
Attributable to:			
Equity holders of the parent		(16.950.899)	(14.071.439)
Non-Controlling interest		0	(561.510)
		<u>(16.950.899)</u>	<u>(14.632.949)</u>
Basic and diluted net loss per share	7	(1,05)	(0,83)

The notes on pages 10-19 are an integral part of these financial statements

Statement of financial position

Assets	Notes	31.12.2010	31.12.2009
Non-current assets			
Property and equipment	8	122.639.425	130.280.594
Prepaid expenses		2.169.213	0
Prepaid lease		179.991	224.971
		<u>124.988.629</u>	<u>130.505.565</u>
Current assets			
Accounts receivable		106.797	579.015
Other receivables		557.446	530.542
Bank deposits and cash		2.749.032	258.277
		<u>3.413.275</u>	<u>1.367.834</u>
Total assets		<u>128.401.904</u>	<u>131.873.399</u>

The notes on pages 10-19 are an integral part of these financial statements

December 31, 2010

Equity and liabilities	Notes	31.12.2010	31.12.2009
Equity			
Share capital	9	75.492.513	30.886.405
Accumulated deficit		(17.114.313)	(20.279.441)
Equity attributable to equity holders of the parent company		<u>58.378.200</u>	<u>10.606.964</u>
Non-controlling interest		0	1.170.033
Total equity		<u>58.378.200</u>	<u>11.776.997</u>
Non-current liabilities			
Non-current liabilities	10	33.681.062	28.557.702
		<u>33.681.062</u>	<u>28.557.702</u>
Current liabilities			
Short-term liabilities	11	0	44.811.217
Current and due maturities	10	33.526.820	32.479.253
Accounts payable		1.240.377	6.995.247
Interest rate swaps		0	1.017.499
Other liabilities		1.575.445	6.235.484
		<u>36.342.642</u>	<u>91.538.700</u>
Total liabilities		<u>70.023.704</u>	<u>120.096.402</u>
Total equity and liabilities		<u>128.401.904</u>	<u>131.873.399</u>

The notes on pages 10-19 are an integral part of these financial statements

Statement of Cash Flows

For the year ended 31 December 2010

	2010	2009
Cash flows from operating activities		
Loss for the period	(16.950.899)	(14.632.949)
Adjustments for:		
Depreciation	7.729.509	8.817.272
Changes in current assets and liabilities	(299.427)	2.080.345
Net finance cost	10.136.358	6.434.198
Income tax expense	0	807.206
Net cash provided by operating activities before interest	<u>615.541</u>	<u>3.506.072</u>
Interest received	4.884	261.576
Paid interest expenses and exchange rate differences	(2.334.145)	(1.231.421)
Net cash (to) from operating activities	<u>(1.713.720)</u>	<u>2.536.227</u>
Investing activities		
Investment in property and equipment	(241.301)	(29.104.713)
	<u>(241.301)</u>	<u>(29.104.713)</u>
Financing activities		
Long-term borrowings	3.056.125	29.985.569
Short-term borrowings	4.226.885	4.041.725
Short-term liabilities repaid	(5.174.300)	(3.293.797)
Paid-in capital stock	9 5.346.174	0
Long-term liabilities repaid	(3.021.971)	(3.337.275)
	<u>4.432.913</u>	<u>27.396.222</u>
Increase in cash and cash equivalents	2.477.892	827.736
Effects of foreign exchange adjustments	12.863	(1.224.481)
Cash and cash equivalents at 1 January	258.277	655.022
Cash and cash equivalents at 31 December	<u>2.749.032</u>	<u>258.277</u>
Non-cash items		
Converted debt to share capital	58.369.340	0
Short term liabilities repaid	(58.369.340)	0

The notes on pages 10-19 are an integral part of these financial statements

Statement of changes in Equity

Year ended 31 December 2009

	Share capital	Accumulated deficit	Equity holders of the parent company	Non-controlling interest	Total equity
Balance at 1 January, 2009.....	30.886.405	(6.208.001)	24.678.403	1.731.543	26.409.947
Total comprehensive income (loss).....	0	(14.071.439)	(14.071.439)	(561.510)	(14.632.949)
Balance at 31 December, 2009.....	30.886.405	(20.279.440)	10.606.964	1.170.033	11.776.997

Year ended 31 December 2010

Balance at 1 January 2010.....	30.886.405	(20.279.441)	10.606.964	1.170.033	11.776.997
Write down of shares.....	(20.279.441)	20.279.441	0	0	0
Effect of merger.....	1.170.033	0	1.170.033	(1.170.033)	0
Issued A share capital	11.000.000	0	11.000.000	0	11.000.000
Issued B share capital	52.715.515	0	52.715.515	0	52.715.515
Other changes in equity.....	0	(163.413)	(163.413)	0	(163.413)
Total comprehensive income (loss).....	0	(16.950.899)	(16.950.899)	0	(16.950.899)
Balance at 31 December, 2010.....	75.492.512	(17.114.313)	58.378.200	0	58.378.200

The notes on pages 10-19 are an integral part of these financial statements

Notes to Financial Statements

1. Reporting entity

Farice ehf., formerly Eignarhaldsfélagið Farice ehf., is a limited company incorporated in Iceland. The principal activities of the Company is to insure safe telecommunications between Iceland and its neighbour countries.

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

The subsidiary of Farice hf. was merged into Farice ehf., as of 1 January 2010.

2. Basis of preparation

Statement of compliance

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

The financial statements have been prepared on the historical cost basis. The accounting policies applied by the Company in these financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended 31 December 2009.

Functional and presentation currency

These financial statements are presented in euro, which is the Company's functional currency.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual result may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 8 - key assumptions regarding estimating the useful lives of Property and equipment

Note 8 - key assumptions used in discounted cash flow projections as basis for impairment testing

In preparing these financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 december 2009.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. Certain comparative amounts have been reclassified to conform with the current year's presentation.

Basis of consolidation

The 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.

As of 1 January 2010, the subsidiary Farice hf., was merged with Farice ehf.,

Revenue recognition

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

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

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 Statement of financial position 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 reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting 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.

Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance costs comprise interest expense on borrowings.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

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 reporting 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 reporting 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 and equipment

Property 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 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 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 reporting 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 reporting 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits with original maturities of three months or less.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary.

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.

New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company.

4. Revenue

Net sales are specified as follows:

	2010	2009
Lease of bandwidth - Farice 1 and Danice	6.691.021	5.812.232
	<u>6.691.021</u>	<u>5.812.232</u>

5. Administrative expenses

	2010	2009
Administrative expenses	397.097	330.889
Reorganisation cost	621.706	91.817
Salaries and salary-related expenses	308.068	303.658
	<u>1.326.871</u>	<u>726.364</u>

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

	2010	2009
Salaries.....	238.755	242.298
Pension fund.....	27.694	27.369
Salary-related expenses	41.619	34.302
Other employee expenses.....	0	(311)
	<u>308.068</u>	<u>303.658</u>
Average number of positions.....	3,0	3,0
Salary and related expenses to Board of Directors.....	25.863	52.086
Salary and related expenses to Guðmundur Gunnarsson, CEO.....	97.767	95.135

6. Financial income / (expenses)

	2010	2009
Interest income.....	4.884	261.576
	<u>4.884</u>	<u>261.576</u>
Interest expenses and borrowing costs.....	(2.900.376)	(8.253.787)
Exchange rate differences.....	(6.927.014)	(1.409.972)
Interest rate swaps.....	(313.852)	(284.240)
Capitalized interest expenses and borrowing costs.....	0	3.352.202
	<u>(10.141.242)</u>	<u>(6.595.797)</u>

7. Earnings per share

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

	2010	2009
Net loss for the period.....	(16.950.899)	(14.071.439)
Total average number of shares	16.141.073	16.972.983
Basic and diluted net loss per share	(1,05)	(0,83)

8. Property and equipment

	Pop/ Bach./CS	Farice 1+upgrade	Cantat Danice	Common Items	Total
Cost					
At 1 January, 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	0	32.505.139
Disposals.....	0	0	0	(4.719)	(4.719)
At 31 December 2009.....	<u>17.238.115</u>	<u>46.878.987</u>	<u>90.850.561</u>	<u>4.425.856</u>	<u>159.393.519</u>
Additions.....	241.301	0	(152.957)	0	88.344
At 31 December 2010.....	<u>17.479.416</u>	<u>46.878.987</u>	<u>90.697.604</u>	<u>4.425.856</u>	<u>159.481.863</u>
Accumulated depreciation					
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
At 31 December 2009.....	<u>3.990.056</u>	<u>10.502.067</u>	<u>10.642.112</u>	<u>3.978.694</u>	<u>29.112.929</u>
Charge for the year.....	1.205.648	2.699.471	3.650.448	173.942	7.729.509
At 31 December 2010.....	<u>5.195.704</u>	<u>13.201.538</u>	<u>14.292.560</u>	<u>4.152.636</u>	<u>36.842.438</u>
Carrying Amounts					
At 1 January, 2009	<u>11.732.018</u>	<u>28.965.128</u>	<u>65.254.133</u>	<u>646.163</u>	<u>106.597.442</u>
At 31 December 2009.....	<u>13.248.059</u>	<u>36.376.920</u>	<u>80.208.449</u>	<u>447.162</u>	<u>130.280.594</u>
At 31 December 2010.....	<u>12.283.712</u>	<u>33.677.449</u>	<u>76.405.044</u>	<u>273.220</u>	<u>122.639.425</u>

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

POP, Backhaul and Cable stations.....	10 - 20 years
Farice 1+ upgrade.....	10 - 20 years
Danice.....	20 years
Common items.....	5 - 20 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Impairment of tangible assets:

The Danice and Farice investments were tested for impairment at year-end 2010. The test was performed by the management of the company and did not lead to an impairment loss. Nevertheless if future operation will not be in line with budgets there is an indication that an impairment loss will be recognised.

In the year of 2009 the investment in Cantat was impaired in full for the amount of EUR 5,0 million. The impairment is included in the depreciation for 2009.

9. Share capital, write down and increase of shares

In June 2010 the shareholders decided to reduce the share capital by EUR 20.279.441 to meet operational losses, resulting the share capital to be EUR 10.606.964. Under the terms of the merger agreement the shareholders of Farice hf., other than Eignarhaldsfélagið Farice ehf., will receive shares in the surviving company, i.e Eignarhaldsfélagið Farice ehf. at a nominal value of EUR 1.170.033 in exchange for their shares in Farice hf.

In December 2010 shareholders decided, as a result of the financial restructuring, to change share-capital into A and B groups. A-shares are the original shares plus additional issued capital. B-shares are converted debt to equity. A-shares were increased with 11 million euros, thereof 5,3 million euros in cash and 5,7 million with a setoff in short term debt with the Icelandic State. B-shares were increased by converting short-term liabilities for the amount of 52,7 million euros.

Common stock is as follows:

	Shares	Nominal value
Total share capital January 1, 2010.....	30.886.405	30.886.405
Write-down of A-share capital.....	(20.279.441)	(20.279.441)
Issued A-share capital.....	11.000.000	11.000.000
Issued B-share capital.....	52.715.515	52.715.515
A-shares to minority shareholders of Farice hf.....	1.170.034	1.170.034
Total share capital at 31 December, 2010.....	<u>75.492.513</u>	<u>75.492.513</u>

Each A- share of one euro carries five votes. Each B-shares of one euro carries one vote.

Share capital at year-end 2010 can be specified as follows:

	Euros	% of votes
A-share capital.....	22.776.998	68,4%
B-share capital.....	52.715.515	31,6%
Total share capital.....	<u>75.492.513</u>	<u>100,0%</u>

10. Long term liabilities

	Currency	Nominal interest rate	Year of maturity	31.12.2010	31.12.2009
Secured bond issue, indexed.....	ISK	5,50%	2034	34.461.026	28.557.702
Secured bank loans *.....	EUR	Libor+0,18-1,5	2011-2015	20.630.112	23.652.083
Secured bank loans *.....	EUR	Euribor+1,5	2010	2.413.332	2.413.332
Finance lease liabilities.....	EUR	Libor+3,5%	2014	7.521.563	4.555.982
Finance lease liabilities.....	CHF	Libor+3,5%	2014	857.559	736.997
Finance lease liabilities.....	JPY	Libor+3,5%	2014	1.155.574	961.232
Finance lease liabilities.....	USD	Libor+3,5%	2014	168.717	159.627
				<u>67.207.883</u>	<u>61.036.955</u>
Current and due maturities.....				-33.526.820	-32.479.253
Long term liabilities total.....				<u>33.681.063</u>	<u>28.557.702</u>

Aggregated annual maturities are as follows

	31.12.2010	31.12.2009
Due maturities.....	33.136.838	32.479.253
2011-2010.....	389.982	0
2012-2011.....	812.432	372.902
2013-2012.....	857.730	776.850
2014-2013.....	905.554	820.165
2015-2014.....	956.045	865.894
Subsequent.....	30.149.302	25.721.891
	<u>67.207.883</u>	<u>61.036.955</u>

Guarantees on longterm liabilities:

	31.12.2010	Guarantee
Secured bond issue, indexed.....	34.461.026	Icelandic State
Secured bank loans A-term.....	9.400.000	Icelandic State
Secured bank loans B-term.....	6.378.029	
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.....	9.703.413	Leased equipment
	<u>67.207.883</u>	

* In December 2010 the company signed new term loan agreements with its lenders and finished the financial restructuring. The Agreements includes some conditions precedent which were not all fulfilled at year-end 2010. Therefore the financial statement present the old loan structure as if the agreements were not in place.

The loans will have a new margin ranging from LIBOR + 0,8%-2,12% and maturities ranging from 2017 to 2019. The finance lease liabilities will have a new margin of LIBOR+4,12% and maturity in 2018.

The bank loans are also guaranteed with 1st. ranking securities in the subseacables, landing stations and accounts receivables. The Icelandic State has a 1st ranking securites in the Danice cable system as collateral against its guarantee of the secured bond.

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.

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 Cantat and Danice. The outstanding amount of EUR 46,4 million plus interest to year-end 2009 was converted to equity as B-shares as a result of financial restructuring. In 2009 and 2010 the company received short term loans from the Icelandic State in order to fulfill interest payments on EFAR 09 bond offering. The short term loans were all paid in full as a result of increase in A-shares.

12. Deferred tax

There is no deferred income tax liability credited in the Statement of financial position due to taxation loss carry forward, even though income tax liability is related to some individual items of the Statement of financial position.

The Company will not pay income tax in 2011 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 utilised against future profits.

At reporting 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 year 2016.....	4.035.613
Available for the years 2017-2020.....	33.384.931
	<u>44.007.066</u>

13. Financial risk

Categories of financial instruments

Financial assets	<u>31.12.2010</u>	<u>31.12.2009</u>
Bank deposits and cash	2.749.032	258.277
Loans and receivables	664.243	1.109.557
Financial liabilities	<u>31.12.2010</u>	<u>31.12.2009</u>
Financial liabilities at amortised cost	70.023.704	120.096.402

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 and fixed rate interest bearing financial instruments.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates at reporting date. The analyses is prepared assuming the amount outstanding at the reporting 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.

	31.12.2010		31.12.2009	
	50 bps.	100 bps.	50 bps.	100 bps.
Effects on P/L and equity	(183.969)	(367.938)	(323.482)	(646.964)

Exposure to 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 and ISK

Foreign currency risk 31.12 2010

	<u>Assets</u>	<u>Liabilities</u>	<u>Net exposure</u>
JPY	0	1.155.573	(1.155.573)
USD	106.644	168.717	(62.073)
CHF	0	857.559	(857.559)
NOK	101	0	101
ISK	352.448	34.461.026	(34.108.578)
GBP	74.124	0	74.124
DKK	6.266	0	6.266

Foreign currency risk 31.12 2009

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

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 reporting 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	31.12.2010		31.12.2009	
	5%	10%	5%	10%
JPY	(51.838)	(103.676)	(40.852)	(81.705)
USD	(2.785)	(5.569)	(237.817)	(475.635)
CHF	(38.469)	(76.938)	(31.322)	(62.645)
NOK	5	9	4	8
DKK	281	562	(2.187)	(4.375)
ISK	(1.530.077)	(3.060.154)	(1.269.020)	(2.538.040)
GBP	3.325	6.650	3.230	6.459

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	
	31.12.2010	31.12.2009
Accounts receivables	106.797	579.015
Other receivables	557.445	530.542
Cash and cash equivalents	2.749.033	258.277
	<u>3.413.275</u>	<u>1.367.834</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.

	Carrying amount	Contractual cash flows	0 - 12 months	1 - 2 years	More than 2 years
Liabilities 31.12 2010					
Trade and other payables	2.815.822	2.815.822	2.815.822	0	0
Long-term debt	67.207.882	120.556.825	10.650.060	11.355.290	98.551.475
	<u>70.023.704</u>	<u>123.372.647</u>	<u>13.465.882</u>	<u>11.355.290</u>	<u>98.551.475</u>
Assets 31.12 2010					
Cash and cash equivalents	2.749.033	2.749.033	2.749.033	0	0
Trade receivables	106.797	106.797	106.797	0	0
Other receivables	557.445	557.445	557.445	0	0
	<u>3.413.275</u>	<u>3.413.275</u>	<u>3.413.275</u>	<u>0</u>	<u>0</u>
Net balance 31.12 2010	(66.610.429)	(119.959.372)	(10.052.607)	(11.355.290)	(98.551.475)

	Carrying amount	Contractual cash flows	0 - 12 months	1 - 2 years	More than 2 years
Liabilities 31.12 2009					
Trade and other payables	90.679.403	97.640.791	78.286.942	8.310.063	11.043.786
Long-term debt	29.416.999	50.208.710	859.297	1.194.778	48.154.635
	<u>120.096.402</u>	<u>147.849.501</u>	<u>79.146.239</u>	<u>9.504.841</u>	<u>59.198.421</u>
Assets 31.12 2009					
Cash and cash equivalents	258.277	258.277	258.277	0	0
Trade receivables	579.015	579.015	579.015	0	0
Other receivables	530.542	530.542	530.542	0	0
	<u>1.367.834</u>	<u>1.367.834</u>	<u>1.367.834</u>	<u>0</u>	<u>0</u>
Net balance 31.12 2009	(118.728.568)	(146.481.667)	(77.778.405)	(9.504.841)	(59.198.421)

14. Approval of Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on 29 April, 2011