

# Farice ehf.

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Financial Statements

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**1.1.-31.12.11**

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

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Financial Statements

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**1.1.-31.12.11**

Approved on board meeting 27 April, 2012

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# Independent Auditor's Report

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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, 2011, 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, 2011, 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.

## 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.

Reykjavík, April 27, 2012.

KPMG ehf.



# Report by the Board of Directors and the CEO

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Farice ehf. is a transmission and data service provider. The company operates two submarine cables between Iceland and Europe and connects Iceland to the world to with backhaul agreements to other networks in major connecting points in Europe.

## Operations in 2011

According to the Statement of Income the operating revenue amounted to EUR 7,2 million and the EBITDA EUR 1,3 million. According to the Statement of Financial Position the company's asset amounted to EUR 119,7 million and equity EUR 57,8 million, an equity ratio of 48%. The Financial Statements are prepared in accordance with International Financial Reporting Standards. Applicable legal provisions do not permit payment of dividend and equity is used to cover the loss of EUR 8,5 million.

## Share capital

Five shareholders are in the company and the number has remained unchanged from end of last year. The largest shareholders in Farice ehf are the Icelandic State with 30%, Landsvirkjun (The National Power Company) with 29% and Arion Bank with 39%. The Icelandic State controls 57% of the voting rights and appoints two board members. Landsvirkjun controls 27% of the voting rights and appoints two board members and Arion Bank controls 16% of the voting rights and appoints one board member. Share Capital is EUR 83,5 million.

## Corporate governance

The board is practicing good corporate governance based on provisions of law, the company's Articles of Association and guidelines in KPMG's handbook on corporate governance. The purpose of these rules is to ensure transparency and internal control and increase risk awareness. The board consists of five members and five alternative members and the board hires the CEO. Internal audit and control system are limited due to the fact that only four people work for the company. Three independent members form the audit committee that follows in detail the closing of the Financial Statements. The risk assessment mainly relates to an action plan if a disruption happens to the submarine cables.

## Going concern

Recently the company signed a Public Service Agreement with the Icelandic State. The purpose of the Agreement is to secure international connectivity to and from Iceland in public interest. The Agreement supports the sustainability and the continuing operations of the company. The public telecommunication sector is a vital customer of the company. The existing agreements are due for renewal in last quarter of this year. The company has high expectations to the growing data industry in Iceland and expects increased revenue from that source. Due to all this the company expects more revenue in 2012 than in 2011.

## Statement of the Board of Directors and the CEO

According to the Board of Directors' best knowledge, the 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 2011, operating performance and the cash flow for the year ended 31 December 2011 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 the 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 2011 with their signatures.

Kópavogur 27. Apríl 2012.

### Board of Directors



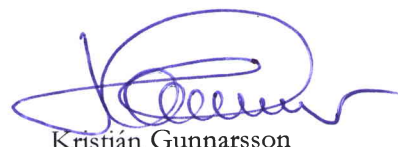
Karl Alvarsson



Ingþór Karl Eiríksson



Pétur Richter

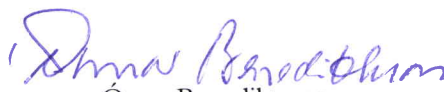


Kristján Gunnarsson



Magnús Bjarnason

### Chief Executive Officer



Ómar Benediktsson

## Statement of comprehensive income

	Notes	2011	2010
Operating revenue .....		7.192.011	6.691.021
Operating expenses .....		(4.591.289)	(4.449.182)
Administrative expenses .....	4	(1.254.642)	(1.326.871)
Depreciation .....		(7.805.900)	(7.729.509)
<b>Operating loss</b>		<u>(6.459.820)</u>	<u>(6.814.541)</u>
Financial income .....	5	31.764	4.884
Financial expenses .....	5	<u>(2.124.568)</u>	<u>(10.141.242)</u>
Net finance cost .....		(2.092.804)	(10.136.358)
<b>Total comprehensive loss</b>		<u>(8.552.624)</u>	<u>(16.950.899)</u>

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

# Statement of financial position

Assets	Notes	31.12.2011	31.12.2010
<b>Non-current assets</b>			
Properties and equipments .....	6	115.660.035	122.639.425
Prepaid expenses .....		2.079.973	2.169.213
Prepaid lease .....		135.015	179.991
		<u>117.875.023</u>	<u>124.988.629</u>
<b>Current assets</b>			
Accounts receivable .....		561.888	106.797
Other receivables .....		884.811	557.446
Bank deposits and cash .....		408.282	2.749.032
		<u>1.854.981</u>	<u>3.413.276</u>
<b>Total assets</b>		<u><u>119.730.004</u></u>	<u><u>128.401.905</u></u>

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

# December 31, 2011

Equity and liabilities	Notes	31.12.2011	31.12.2010
<b>Equity</b>			
Share capital .....		83.492.513	75.492.513
Loss carry-forward .....		(25.666.934)	(17.114.313)
Total Equity		<u>57.825.579</u>	<u>58.378.200</u>
 <b>Non-current liabilities</b>			
Non-current liabilities .....	7	<u>40.169.672</u>	<u>33.681.062</u>
 <b>Current liabilities</b>			
Current and due maturities .....	7	20.282.766	33.526.820
Accounts payable .....		1.060.262	1.240.377
Other liabilities .....		391.725	1.575.446
		<u>21.734.753</u>	<u>36.342.643</u>
Total liabilities		<u>61.904.425</u>	<u>70.023.705</u>
 <b>Total equity and liabilities</b>		<u><u>119.730.004</u></u>	<u><u>128.401.905</u></u>

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



# Statement of Cash Flows

	2011	2010
<b>Cash flows from operating activities</b>		
Loss for the period .....	(8.552.624)	(16.950.899)
Adjustments for:		
Depreciation .....	7.805.900	7.729.509
Changes in current assets and liabilities .....	(539.326)	(299.427)
Net finance cost .....	2.092.804	10.136.358
<b>Net cash provided by operating activities before interest</b>	<u>806.754</u>	<u>615.541</u>
Interest received .....	31.764	4.884
Paid interest expenses and exchange rate differences .....	(3.825.151)	(2.334.145)
<b>Net cash (to) operating activities</b>	<u>(2.986.633)</u>	<u>(1.713.720)</u>
<b>Investing activities</b>		
Investment in fixed assets .....	(575.271)	(241.301)
	<u>(575.271)</u>	<u>(241.301)</u>
<b>Financing activities</b>		
Paid in share capital .....	8.000.000	5.346.174
Long term borrowings .....	0	3.056.125
Short-term borrowings .....	0	4.226.885
Short-term liabilities repaid .....	(555.822)	(5.174.300)
Long-term liabilities repaid .....	(6.221.056)	(3.021.971)
	<u>1.223.122</u>	<u>4.432.913</u>
Increase (decrease) in cash and cash equivalents .....	(2.338.782)	2.477.892
Effects of foreign exchange adjustments .....	(1.968)	12.863
Cash and cash equivalents at 1 January .....	2.749.032	258.277
Cash and cash equivalents at 31 December .....	<u>408.282</u>	<u>2.749.032</u>
<b>Non-cash items</b>		
Converted debt to share capital .....	0	58.369.340
Short term liabilities repaid .....	0	(58.369.340)
Investments in fixed assets .....	(251.233)	0
Unpaid investment .....	251.233	0

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

## Statement of changes in Equity

### Year ended 31 December 2010

	Share capital	Accumulated deficit	Equity holders of the parent company	Non-controlling interest	Total equity
Balance at 1 January, 2010.....	30.886.405	(20.279.441)	10.606.964	1.170.033	11.776.997
Total comprehensive loss.....	0	(16.950.899)	(16.950.899)	0	(16.950.899)
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		11.000.000		11.000.000
Issued B share capital.....	52.715.515		52.715.515		52.715.516
Other changes in equity.....	0	(163.413)	(163.413)	0	(163.413)
Balance at 31 December, 2010.....	75.492.512	(17.114.313)	58.378.200	0	58.378.200

### Year ended 31 December 2011

Balance at 1 January 2011.....	75.492.513	(17.114.313)	58.378.200	0	58.378.200
Total comprehensive loss.....	0	(8.552.624)	(8.552.624)	0	(8.552.624)
Issued A share capital.....	8.000.000	0	8.000.000	0	8.000.000
Balance at 31 December, 2011.....	83.492.513	(25.666.934)	57.825.579	0	57.825.579

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

# Notes to Financial Statements

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## 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 is in majority ownership of the Icelandic State.

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

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

## 2. Basis of preparation

### Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements according to Icelandic laws.

The accounting policies applied by the Company in these financial statements are the same as those applied by the Company in its financial statements as at and for the year ended 31 December 2010.

### 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 6 - key assumptions regarding estimating the useful lives of property and equipment.

Note 6 - key assumptions used in discounted cash flow projections as basis for impairment testing.

Note 9 - key assumptions used in evaluation of tax assets.

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 financial statements as at and for the year ended 31 December 2010.

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### Revenue recognition

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

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

## Leasing

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

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

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

## Foreign currencies

Transactions in currencies other than euros are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

## Borrowing costs

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

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

## 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 cost comprise interest expense on borrowings.

Borrowing cost that are not directly attributable to the acquisition, construction or production of 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 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 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 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, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy.

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

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

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

## **Impairment of tangible assets**

At each 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 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.

## **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.

Total share capital is EUR 83,492,513 and is divided into A shares and B shares. Each share amounting to EUR 1. Five votes are attached to each share of class A and one vote to each share of class B.

Shares in class A do not acquire the right to dividend payments until shares in class B have been redeemed in full. Shares in class B shall not be entitled to the payment of dividend and can only be converted into shares in other share classes by a resolution of shareholders' meeting.

## 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.

## Segment reporting and major customers

The operations of Farice are within a single reportable segment whose operating results are regularly reviewed by the entity's chief operating decision maker. Four customers account for 87,1% of the revenues.

## New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for the annual periods beginning after 1 January 2011, 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. Administrative expenses

	2011	2010
Administrative expenses.....	677.450	397.097
Reorganisation cost.....	167.122	621.706
Salaries and salary-related expenses.....	410.070	308.068
	<u>1.254.642</u>	<u>1.326.871</u>

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

	2011	2010
Salaries.....	311.129	238.755
Pension fund.....	42.290	27.694
Salary-related expenses .....	56.651	41.619
	<u>410.070</u>	<u>308.068</u>
Average number of positions.....	<u>3,0</u>	<u>3,0</u>

Salary and related expenses to Board of Directors.....	28.669	25.863
Salary and related expenses to Guðmundur Gunnarsson, CEO.....	155.365	97.797

Guðmundur Gunnarsson, CEO, left the Company in November 2011 and the termination benefit is recognised in full in 2011.

## 5. Financial income / (expenses)

	2011	2010
Interest income.....	31.764	4.884
	<u>31.764</u>	<u>4.884</u>
Interest expenses and borrowing costs.....	(2.686.925)	(2.900.376)
Partial forgiveness of debt.....	1.857.757	0
Indexation change .....	(1.461.958)	(828.958)
Exchange rate differences.....	166.558	(6.098.056)
Interest rate swaps.....	0	(313.852)
	<u>(2.124.568)</u>	<u>(10.141.242)</u>

## 6. Property, and equipment

	Pop/ Bach./CS	Farice 1+upgrade	Cantat Danice	Common Items	Total
<b>Cost</b>					
At 1 January, 2010.....	17.238.115	46.878.987	90.850.561	4.425.856	159.393.519
Additions.....	241.301	0	(152.957)	0	88.344
At 31 December 2010.....	17.479.416	46.878.987	90.697.604	4.425.856	159.481.863
Additions.....	843.967	0	0	1.727	845.694
At 31 December 2011.....	18.323.383	46.878.987	90.697.604	4.427.583	160.327.557
<b>Accumulated depreciation</b>					
At January 1, 2010.....	3.990.056	10.502.067	10.642.112	3.978.694	29.112.929
Charge for the year.....	1.205.647	2.699.470	3.650.448	173.942	7.729.507
At 31 December 2010.....	5.195.703	13.201.537	14.292.560	4.152.636	36.842.436
Charge for the year.....	1.282.722	2.699.471	3.650.448	173.259	7.805.900
Disposals.....	0	0	0	19.186	19.186
At 31 December 2011.....	6.478.425	15.901.008	17.943.008	4.345.081	44.667.522
<b>Carrying Amounts</b>					
At 1 January, 2010.....	13.248.059	36.376.920	80.208.449	447.162	130.280.590
At 31 December 2010.....	12.283.713	33.677.450	76.405.044	273.220	122.639.425
At 31 December 2011.....	11.844.958	30.977.979	72.754.596	82.502	115.660.035

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

Point of Presence (PoP).....	10 years
Backhaul.....	10 years
Cable stations.....	20 years
Wet section.....	20 years
Common items.....	5-10 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 2011. The test was performed by the management and did not lead to an impairment loss. Nevertheless if future operation will not be in line with budgets there is a strong indication that an impairment loss will be recognised.

A minor decrease in budgeted revenues will change the assumptions to worse so the impairment test will provide an impairment loss.

Sensitivity analysis within the impairment test give a strong indication that a permanent 5% decrease in EBITDA will result in EUR 4,3 million impairment of assets.

The PSA contract recently made with the Icelandic Telecommunication Fund on behalf of the Icelandic State will have substantial effect on the income in the next 5 years. The contract will also diminish the uncertainty of future revenues. Further discussion on the PSA contract are in note 13.

## 7. Long term liabilities

	Currency	Nominal interest rate	Year of maturity	31.12.2011	31.12.2010
Secured bond issue, indexed.....	ISK	5,50%	2034	34.811.720	34.461.026
Secured bank loans .....	EUR	Euribor+0,8-2,12%	2011-2019	15.359.918	20.630.112
Secured bank loans .....	EUR	Euribor +1,5%	2011	0	2.413.332
Secured bank loans .....	EUR	Euribor+4,5%	2018	3.056.125	3.056.125
Finance lease liabilities.....	EUR	Libor+4,12%	2017-2018	4.770.317	4.465.438
Finance lease liabilities.....	CHF	Libor+4,12%	2017	936.983	857.559
Finance lease liabilities.....	JPY	Libor+4,12%	2017	1.331.441	1.155.574
Finance lease liabilities.....	USD	Libor+4,12%	2017	185.934	168.717
				<u>60.452.438</u>	<u>67.207.883</u>
Current and due maturity.....				-20.282.766	-33.526.820
Long term liabilities total.....				<u>40.169.672</u>	<u>33.681.063</u>

Aggregated annual maturities are as follows:

	31.12.2011	31.12.2010
2011.....	-	33.526.820
2012.....	20.282.766	812.432
2013.....	1.936.365	857.730
2014.....	2.008.684	905.554
2015.....	2.083.785	956.045
2016.....	2.161.778	-
later.....	31.979.060	30.149.302
	<u>60.452.438</u>	<u>67.207.883</u>

Guarantees on longterm liabilities:

	31.12.2011	Guarantee
Secured bond issue, indexed.....	34.811.720	Icelandic State
Secured bank loans A-term.....	12.126.313	Icelandic State
Secured bank loans B-term.....	2.678.029	Skipti hf
Secured bank loan.....	555.576	Account receivable
Secured bank loan.....	3.056.125	Landing equipment
Finance lease liabilities.....	7.224.675	Leased equipment
	<u>60.452.438</u>	

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 securities in the Danice cable system as collateral against its guarantee of the secured bond.

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.



The Company is in breach of some covenants in its long-term loans. Covenant breaches are in loans for the amount of EUR 18,3 million at year end.

According to IAS1, when an entity breaches a provision of 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 consequence of the breach.

## 8. Restructuring of long term liabilities and new equity.

In December 2010 the company signed new term loan agreements with its lenders and finished the financial restructuring.

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

The terms of 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 beginning of September 2011 the Company received EUR 8 million in cash from its shareholders as new equity. The funds were used to pay up EUR 6 million in long term loans and due interest. The remaining cash was to strengthen the Company's cash position.

## 9. Deferred tax

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 Company will not pay income tax in 2012 due to the loss in the year 2011 and 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.

The income tax liability is attributable to the following balance sheet items:

Properties and equipments.....	2.494.295
Accounts receivable.....	(13.185)
Deferred foreign exchange difference.....	(439.593)
Tax loss carry forward.....	(9.726.066)
Decrease in value of tax assets.....	7.684.549
Deferred income tax-liability at 31 December.....	<u>0</u>

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

Available until the year 2014.....	120.495
Available until the year 2015.....	181.395
Available until the year 2018.....	2.113.221
Available until the year 2019.....	15.112.987
Available until the year 2020.....	20.129.565
Available until the year 2021.....	10.972.668
Unused tax losses total.....	<u>48.630.331</u>

## 10. Financial risk

### Categories of financial instruments

Financial assets	31.12.2011	31.12.2010
Bank deposits and cash .....	408.282	2.749.032
Loans and receivables .....	1.446.699	664.243
<b>Financial liabilities</b>	<b>31.12.2011</b>	<b>31.12.2010</b>
Other financial liabilities at amortised cost .....	61.904.425	70.023.704

### 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 both fixed and floating rate interest bearing financial instruments.

### Sensitivity analysis

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

	31.12.2011		31.12.2010	
	50 bps.	100 bps.	50 bps.	100 bps.
Effects on P/L and equity .....	(120.088)	(240.177)	(183.969)	(367.938)

### 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 31.12.2011

	Assets	Liabilities	Net exposure
JPY .....	0	1.331.441	(1.331.441)
USD .....	1.138	185.932	(184.794)
CHF .....	0	936.983	(936.983)
NOK .....	0	0	0
ISK .....	18.340	34.811.720	(34.793.380)
GBP .....	4.226	0	4.226
DKK .....	72.848	0	72.848

	Assets	Liabilities	Net exposure
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

### Sensitivity analysis

The table below shows what effects 5% and 10% strengthening 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 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	31.12.2011		31.12.2010	
	5%	10%	5%	10%
JPY .....	(53.258)	(106.515)	(51.838)	(103.676)
USD .....	(7.392)	(14.784)	(2.785)	(5.569)
CHF .....	(37.479)	(74.959)	(38.469)	(76.938)
NOK .....	0	0	5	9
DKK .....	2.914	5.828	281	562
ISK .....	(1.391.735)	(2.783.470)	(1.530.077)	(3.060.154)
GBP .....	169	338	3.325	6.650

### 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	
	31.12.2011	31.12.2010
Accounts receivables .....	561.888	106.797
Other receivables .....	884.811	557.445
Cash and cash equivalents .....	408.282	2.749.033
	<u>1.854.981</u>	<u>3.413.275</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
<b>Liabilities 31.12.2011</b>					
Trade and other payables .....	1.060.262	1.060.262	1.060.262	0	0
Long-term loans .....	60.452.438	117.024.320	9.297.358	9.253.329	98.473.633
	<u>61.512.700</u>	<u>118.084.582</u>	<u>10.357.620</u>	<u>9.253.329</u>	<u>98.473.633</u>
<b>Assets 31.12.2011</b>					
Cash and cash equivalents .....	408.282	408.282	408.282	0	0
Trade receivables .....	561.888	561.888	561.888	0	0
Other receivables .....	884.811	884.811	884.811	0	0
	<u>1.854.981</u>	<u>1.854.981</u>	<u>1.854.981</u>	<u>0</u>	<u>0</u>
Net balance 31.12.2011	(59.657.719)	(116.229.601)	(8.502.639)	(9.253.329)	(98.473.633)

Liabilities 31.12 2010	Carrying amount	Contractual cash flows	0 - 12 months	1 - 2 years	More than 2 years
Trade and other payables .....	2.815.822	2.815.822	2.815.822	0	0
Long-term loans .....	67.207.882	120.556.825	10.650.060	11.355.290	98.551.475
	70.023.704	123.372.647	13.465.882	11.355.290	98.551.475
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
	3.413.275	3.413.275	3.413.275	0	0
Net balance 31.12 2010	(66.610.429)	(119.959.372)	(10.052.607)	(11.355.290)	(98.551.475)

## 11. Related parties

Shareholders, members of the Board and key management personnel are defined as related parties. No related parties purchased service from the Company in 2011. In 2010 The Icelandic State, Landsvirkjun and Arion Bank hf converted their short-term loans into equity. Farice did not buy any goods or service from related parties in 2011 or 2010.

## 12. Capital management

The Board's policy is to maintain a strong capital base to sustain future developments of the business.

The Company's Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The equity ratio was 48,3% at year end 2011 (2010: 45,5%).

There were no changes in the Company's approach to capital management during the year and the Company is not obliged to comply with external rules on minimum equity other than those related to covenants in its loan agreements.

## 13. Subsequent events Public Service Contract

In April 2012 The Company and The Telecommunications Fund entered into a Public Service Contract concerning electronic communication connectivity between Iceland and Europe. The purpose of the contract is that the parties acknowledge that submarine electronic communications cables, providing international connectivity to the territory of Iceland are to be essential infrastructure. The parties furthermore acknowledge that Farice is the only undertaking in possessions of submarine cables connecting Iceland to other parts of Europe.

The Telecommunications Fund undertakes to compensate Farice for discharging the public service in as much as revenue is not sufficient to cover the cost of providing the public service taking into account a reasonable rate of return.

According to Farice's business plan the operation of Farice will be sustainable in the near future, when income from services other than the public service increases. However there may be a period, before a significant increase in revenue from non-public services occur, where revenue is not sufficient to cover the cost of operating the public service

## 14. Approval of Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on 27 April, 2012.