Farice ehf.

Financial Statements 2012

Farice ehf.
Smáratorgi 3
201 Kópavogur

Reg. no. 511203-2950

Contents

Report of the Board of Directors and the CEO

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 with backhaul agreements to other networks in major connecting points in Europe.

Operations in the year 2012

According to the Statement of Comprehensive Income the operating revenue amounted to EUR 10,2 million and the EBITDA EUR 3,9 million. According to the Statement of Financial Position the company´s asset amounted to EUR 110,9 million and the equity amounted to EUR 51,7 million, an equity ratio of 46,6%. 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 6,1 million.

Share capital

In the autumn of 2012 the number of shareholders was reduced to three when the company bought the shares of two small shareholders, it currently holds 1,6% of its own shares. The three shareholders in Farice ehf. are the Icelandic State with 30%, Landsvirkjun (The National Power Company) with 29% and Arion Bank with 39,3%. Share Capital was reduced to EUR 54,2 million in December 2012 to cover accumulated losses.

Corporate governance

The board is practicing good corporate governance based on provisions of law, the company´s Article 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

In the year 2012 the company signed a Public Service Agreement with the Icelandic State, the contract period is five years, starting in the year 2012. The purpose of the Agreement is to secure continued international connectivity to and from Iceland in the 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 agreements with the two largest companies where renewed and are valid until 4Q 2015. The company has high expectations to the growing data industry in Iceland and expects increased revenue from that source in the coming years.

Performance

Farice network's performance is of ultimate importance to the Icelandic market. The wet section (the submarine cable part) had no outages at all. The Danish and UK terrestrial segments showed 99,4% availability including planned maintenance but the Icelandic segment showed 99,95% availability on three routes but 100% on one route. As a result of the protection the Farice network delivered 100% availability in the year 2012.

Statement by the Board of Directors and the CEO

According to the Board of Director´s 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 2012, operating performance and the cash flow for the year ended 31 December 2012 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 2012 with their signatures.

Kópavogur, 1 March 2013

The Board of Directors of Farice ehf.

Karl Alvarsson, Chairman

Ingþór Karl Eiríksson

Kristján Gunnarsson

Pétur Richter

Magnús Bjarnason

Chief Executive Officer

Ómar Benediktsson

Independent Auditors' 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, 2012, 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.

Auditors' 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, 2012, 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 Report of the Board of Directors and the CEO

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, 1 March 2013

KPMG ehf.

Símon Á. Gunnarsson Sigríður H. Sveinsd.

Statement of Comprehensive Income for the year ended 31 December 2012

	Notes	2012	2011
Sale of bandwidth		7.998.793	7.192.011
Income from Public Service Contract	5	2.163.888	0
		10.162.681	7.192.011
Operating expenses	6	5.327.009	4.591.289
Administrative expenses	7	937.031	1.254.642
		6.264.040	5.845.931
Profit before depreciation and finance items		3.898.641	1.346.080
Depreciation	9	(7.843.297)	(7.805.900)
Operating loss		(3.944.656)	(6.459.820)
Finance income	8	2.573	31.764
Interest- and indexation expenses	8	(4.629.550)	(4.148.883)
Other income from financial assets and financial liabilities	8	2.443.785	2.024.315
Net finance cost		(2.183.192)	(2.092.804)
Total comprehensive loss for the year		(6.127.848)	(8.552.624)

Notes on pages 10 to 24 are an integral part of these financial statements.

Statement of Financial Position 31 December 2012

	Notes	31.12.2012	31.12.2011
Assets			
Operating assets	9	107.944.314	115.660.035
Prepaid expenses	10	1.904.080	2.079.973
Prepaid lease		90.039	135.015
Non-current assets		109.938.433	117.875.023
Trade receivables		465.866	561.888
Other receivables		216.500	884.811
Cash and cash equivalents		300.839	408.282
Current assets		983.205	1.854.981
Total assets		110.921.638	119.730.004
Equity			
Share capital	12	53.372.575	83.492.512
Accumulated deficit		(1.693.527)	(25.666.933)
Total equity		51.679.048	57.825.579
Liabilities			
Loans and borrowings	13	37.238.036	40.169.672
Loans and borrowings	13	20.873.712	20.282.766
Trade payables		394.415	1.060.262
Other liabilities		736.427	391.725
Current liabilities		22.004.554	21.734.753
Total liabilities		59.242.590	61.904.425
Total equity and liabilities		110.921.638	119.730.004

Notes on pages 10 to 24 are an integral part of these financial statements.

Statement of Changes in Equity for the year ended 31 December 2012

	Notes	Share capital	Accumulated deficit	Total equity
2011				
Equity as at 1 January 2011		75.492.512	(17.114.309)	58.378.203
Total comprehensive loss for the year			(8.552.624)	(8.552.624)
Issued new A share capital		8.000.000		8.000.000
Equity as at 31 December 2011		83.492.512	(25.666.933)	57.825.579
2012				
Equity as at 1 January 2012		83.492.512	(25.666.933)	57.825.579
Total comprehensive loss for the year			(6.127.848)	(6.127.848)
Own shares acquired		(1.331.351)	1.312.668	(18.683)
Write down of shares		(28.788.586)	28.788.586	0
Equity as at 31 December 2012		53.372.575	(1.693.527)	51.679.048

Notes on pages 10 to 24 are an integral part of these financial statements.

Statement of Cash Flows for the year ended 31 December 2012

	Notes	2012	2011
Cash flow from operating activities			
Loss for the year		(6.127.848)	(8.552.624)
Adjustments for:			
Depreciation	9	7.843.297	7.805.900
Net finance cost		2.198.610	2.092.804
		3.914.059	1.346.080
Changes in current assets and liabilities		225.018	(539.326)
Cash generated from operating activities before interest		4.139.077	806.754
Interest received		2.573	31.764
Interest paid		(2.781.734)	(3.825.151)
Net cash from (to) operating activities		1.359.916	(2.986.633)
Cash flows from investing activities			
Acquisition of property and equipment	9	(127.576)	(575.271)
Net cash used in investing activities		(127.576)	(575.271)
Cash flows from financing activities			
Proceeds from issue of share capital		0	8.000.000
Own shares acquired		(18.683)	
New short-term loans		2.000.000	0
Repayment of short-term loans		0	(555.822)
Repayment of long-term loans		(3.305.682)	(6.221.056)
Net cash (used in) from financing activities		(1.324.365)	1.223.122
Net (decrease) in cash and cash equivalents		(92.025)	(2.338.782)
Cash and cash equivalents at 1 January		408.282	2.749.032
Effect of exchange rate fluctuations on cash held		(15.418)	(1.968)
Cash and cash equivalents at 31 December		300.839	408.282
Investing and financing activities not affecting cash flow			
Investments in fixed assets		0	(251.233)
Unpaid investment		0	251.233

Notes on pages 10 to 24 are an integral part of these financial statements.

Notes

1. Reporting entity

Farice ehf. is a limited liability company domiciled in Iceland. The Company's registered office address is Smáratorg 3, Kópavogur, Iceland. The principal activities of the Company are 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, the Faroe Islands, Denmark and the United Kingdom. The income and

2. Basis of preparation

a. *Statement of compliance*

The Company's financial statements are prepared according to International Financial Reporting Standards (IFRS) as adopted by the EU and additional Icelandic disclosure requirement in accordance with Icelandic financial statement act nr. 3/2006.

These financial statements were authorized for issue by the Board of Directors on 1 March 2013.

b. Going concern

Management has evaluated whether the Company is a going concern. It is the opinion of the management that the Company's ability to meet its obligations in the foreseeable future has been ensured. Therefore, the financial statements are presented based on the assumption that the Company is a going concern.

c. *Basis of measurement*

The financial statements have been prepared on the historical cost basis.

d. *Presentation and functional currency*

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

e. *Use of estimates and judgements*

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

- Note 9 - operating assets

Information about assumptions and estimates that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:
- Note 9 - key assumptions used in discounted cash flow projections
- Note 11 - recoverabilty of defferred tax asset

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 in the statement of comprehensive income have been reclassified to conform with the current year’s presentation (see Note 8).

3. Significant accounting policies, contd.:

a. Foreign currencies

(i) Transactions in foreign currencies

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the year. Foreign currency differences arising on translation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

b. Financial instruments

(i) Financial assets and financial liabilities

The Company's financial assets and liabilities comprise cash and cash equivalents trade and other receivables, borrowings and trade and other short-term payables.

Financial instruments are initially recognised at fair value. They are recognised at the transaction date, which is the date the Company becomes a party to the contractual provisions of the instrument. All direct transaction costs are taken into account upon initial recognition.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies financial assets and financial liabilities into the following categories: loans and receivables and financial liabilities

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Financial liabilities

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities comprise loans and borrowings and trade and other payables.

3. Significant accounting policies, contd.:

b. Financial instruments, contd.:

(ii) Share capital

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

Shares are ordinary shares with all normal voting rights and shall be entitled to the payment of dividend and can only be converted into shares in other share classes by a resolution of shareholder's meeting. The Company has the right to take a shareholders loan of up to EUR 5 million that can be converted into a new class of shares.

Upon purchase of treasury shares the acquisition price, including direct costs, is recognised as reduction from equity. When treasury shares are sold the sale is recognised as increase in equity.

c. Operating assets

(i) Recognition and measurement

Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When operating assets consist of parts which have different useful lives, the parts are separated and depreciated based on the useful life of each part.

The gain on sale of operating assets, which is the difference between their sale proceeds and carrying amount, is recognised in the income statement among other operating income and the loss on sale among administrative expenses.

(ii) Subsequent costs

Costs of replacing single components of property and equipment is capitalised when it is considered likely that the benefits associated with the asset will flow to the Company and the costs can be measured reliably. The carrying amount of the replaced component is expensed. All other costs are expensed in the income statement as they are incurred.

(iii) Depreciation

Depreciation is calculated based on the depreciable amount, which is the cost less estimated residual value. Depreciation is calculated on a straight line basis over the estimated useful lives of each component of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Estimated useful lives are specified as follows:

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

3. Significant accounting policies, contd.:

d. Impairment

(i) Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

Impairment is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

e. Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

f. Revenue

(i) Sale of bandwidth

Revenue from the sale of bandwidth is recognized in profit and loss based on recorded measurement of delivery during the period.

(ii) Income from Public Service Contract

Income from Public Service Contract is recognised in profit or loss when the income becomes receivable.

g. Leases

(i) Leased assets

Assets held by the Company under leases which transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the statement of financial position.

(ii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

h. Finance income and finance expenses

Finance income comprises interest income on investments. Interest income is recognised in the income statement as it accrues based on effective interest.

Finance expenses comprise interest expenses on borrowings and inflation indexation. 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 on financial assets and financial liabilities 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.

i. Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to operating items recognised directly in equity or in other comprehensive income, in which case the income tax is recognised together with those items.

Current tax is the income tax estimated to be payable or receivable next year in respect of the taxable income or loss for the year, based on the tax rate at the reporting date, in addition to adjustments to tax payable in respect of previous years, if any.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the

j. Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company's management considers the Company to have one segment.

Four customers account for 82,09% of the revenues from sale of bandwidth of the Company (2011: 87,5%).

k. New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, 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. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Trade and other receivables

The fair value of trade and other receivables, which is only determined for disclosure purposes, is the estimated future cash flows discounted at the market interest rate at the reporting date. Short-term receivables are however not discounted as the difference between their fair value and their carrying amount is insignificant.

(ii) Financial liabilities

The fair value of payables to credit institutions, which is only determined for disclosure purposes, is the estimated future cash flows discounted at the market interest rate at the reporting date. Short-term payables are however not discounted as the difference between their fair value and their carrying amount is insignificant.

5. 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 part of essential infrastructure. The parties furthermore acknowledge that Farice is the only undertaking in possessions of submarine cables connecting Iceland and the other parts of Europe.

The Telecommunication 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. The contract period is five years, starting on 1 January 2012.

6. Operating expenses

	2012	2011
Backhaul	3.073.478	2.255.228
Other expenses	2.253.531	2.336.061
Total operating expenses	5.327.009	4.591.289

7. Administrative expenses

	2012	2011
Salaries and salary-related expenses	455.114	410.070
Reorganisation cost	0	167.122
Other administrative expenses	481.917	677.450
Total administrative expenses	937.031	1.254.642

Salaries and salary-related expenses are specified as follows:

Salaries	342.461	311.129
Contributions to pension funds	31.331	42.290
Other salary related expenses	81.322	56.651
Total salaries and other salary related expenses	455.114	410.070
Number of employees in full time equivalent units	4	3
Salaries and salary-related expenses to the Board of Directors	28.631	28.669
Salaries and benefits to the CEO	145.030	155.365

The former CEO, left the Company in November 2011. His termination benefits were recognised in full in the year 2011.

8. Finance income and finance expenses

Finance income is specified as follows:

Interest income	2.573	31.764
Total finance income	2.573	31.764

Interest- and indexation expenses are specified as follows:

Interest expenses and borrowing costs	3.106.396	2.686.925
Indexation charge	1.523.154	1.461.958
Total finance expenses	4.629.550	4.148.883

Other income from financial assets and financial liabilities is specified as follows:

Partial forgiveness of debt	0	1.857.757
Exchange rate differences	2.443.785	166.558
Total finance income	2.443.785	2.024.315

The presentation of the information in this note has been changed. The finance income and finance expenses are now grouped into three categories in this note instead of two categories in the financial statements for the year 2011.

9. Operating assets

Operating assets, its impairment and depreciation is specified as follows:

	PoP/ Backhaul/CS	Farice-1 + upgrade	Danice	Common Items	Total
Total value					
Total cost 1.1.2011	17.479.416	46.878.987	90.697.604	4.425.856	159.481.863
Additions during the year	843.967			1.727	845.694
Total cost 31.12.2011	18.323.383	46.878.987	90.697.604	4.427.583	160.327.557
Additions during the year	127.576				127.576
Disposals			(9.729.500)		(9.729.500)
Total cost 31.12.2012	18.450.959	46.878.987	80.968.104	4.427.583	150.725.633
Depreciation and impairment					
Depreciated 1.1.2011	5.195.703	13.201.537	14.292.560	4.152.636	36.842.436
Disposals				19.186	19.186
Depreciation for the year	1.282.722	2.699.471	3.650.448	173.259	7.805.900
Total depreciation 31.12.2011	6.478.425	15.901.008	17.943.008	4.345.081	44.667.522
Depreciation for the year	1.412.170	2.699.471	3.650.448	81.208	7.843.297
Disposals			(9.729.500)		(9.729.500)
Total depreciation 31.12.2012	7.890.595	18.600.479	11.863.956	4.426.289	42.781.319
Carrying amount					
Carrying amount 1.1.2011	12.283.713	33.677.450	76.405.044	273.220	122.639.427
Carrying amount 31.12.2011	11.844.958	30.977.979	72.754.596	82.502	115.660.035
Carrying amount 31.12.2012	10.560.364	28.278.508	69.104.148	1.294	107.944.314

At year end, the Company's operating assets were tested for impairment. The test was based on evaluation of the Company's operating value, based on management's assumptions, mainly with respect to future growth in revenue, operating margin and weighted average cost of capital. In the evaluation a five year forecast was used, but a fixed income increase and margin was assumed in the period thereafter. The conclusions of the impairment test 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 the budget for revenues will result in an impairment loss. According to a sensitivity analysis within the impairment test a permanent 5% decrease in EBITDA will result in EUR 1,9 million impairment of assets. A 100 basis points increase in the discount rate will result in an impairment loss of EUR 9,8 million.

The PSA contract with the Icelandic Telecommunication Fund on behalf of the Icelandic State, described in note 5, will have substantial effect on the income in the next 5 years. The contract will also diminish the uncertainty of future revenues.

10. Prepaid expenses

The prepaid expenses are a state garantee fee paid in 2010 for the secured bond issue.

11. Deferred tax asset

A deferred tax asset is not recognised in the balance sheet due to the uncertainty of utilisation of the deferred carryforward tax loss.

Deferred tax asset is as follows at the year end:	31.12.2012	31.12.2011
Property and equipment	(2.269.676)	(2.494.295)
Trade receivables	2.056	13.185
Deferred foreign exhange difference	(427.321)	439.593
Tax loss carryforward	10.933.539	9.726.066
Impairment of tax asset	(8.238.598)	(7.684.549)
	0	0

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
Available until the year 2022	9.394.852
Unsused tax losses total	58.025.183

12. Equity

Total share capital is EUR 54.234.910. One vote is attached to each share of one EUR.

No dividend has been paid in 2012. The share capital was reduced in 2012 by EUR 28.788.586 and own shares in the nominal amount of EUR 1.331.351 were acquired. At year-end 2012 the nominal value of own shares is EUR 862.335, the nominal value of outstanding shares amounts to EUR 53.372.575 at year-end 2012.

13. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 15.

			2012		2011	
	Curr.	Year of maturity	Interest rate	Carrying amount	Interest rate	Carrying amount
Secured bond issue	ISK	2034	5,5% + indexed	33.195.835	5,5%	34.811.720
Secured bank loans	EUR	2017-2019	Euribor+0,8-2,12%	14.372.311	Euribor+0,8-2,12%	15.359.918
Secured loan	EUR	2018	Euribor + 4,5%	2.685.886	Euribor + 4,5%	3.056.125
Finance lease liabilities	EUR	2018	Libor + 4,12%	4.024.588	Libor + 4,12%	4.770.317
Finance lease liabilities	CHF	2018	Libor + 4,12%	792.403	Libor + 4,12%	936.983
Finance lease liabilities	JPY	2018	Libor + 4,12%	986.269	Libor + 4,12%	1.331.441
Finance lease liabilities	USD	2018	Libor + 4,12%	152.799	Libor + 4,12%	185.934
Convertible notes	ISK	2013	10,00%	1.901.657		0
				58.111.748		60.452.438
Current and due maturities				(20.873.712)		(20.282.766)
Total long term liabilities				37.238.036		40.169.672

13. Loans and borrowings contd.:

Maturities are specified as follows over the next years:

	31.12.2012	31.12.2011
Year 2013 / 2012	20.873.712	20.282.766
Year 2014 / 2013	2.009.142	1.936.365
Year 2015 / 2014	2.109.164	2.008.684
Year 2016 / 2015	2.214.157	2.083.785
Year 2017 / 2016	2.324.379	2.161.778
Later	28.581.194	31.979.060
	58.111.748	60.452.438

Current and due maturity is specified as follows:

Contractual repayments	3.296.566	3.224.794
Short term convertible notes	1.901.657	0
Classified as current due to breach in covenants	15.675.489	17.057.972
	20.873.712	20.282.766

Guarantees on longterm liabilities:

	31.12.2012	Guarantor/Guarantee
Secured bond issue, indexed	33.195.835	Icelandic State
Secured bank loans A-term	9.434.276	Icelandic State
Secured bank loans B-term	4.475.055	Skipti hf.
Secured bank loans	462.980	Trade receivable
Secured loan	2.685.886	Landing equipment
Convertible notes	1.901.657	
Finance lease liabilities	5.956.059	Leased equipment
	58.111.748	

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

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

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, the liability is classified 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.

14. Financial assets and financial liabilities

According to the International Accounting Standard IAS 39 *Financial Instruments: Recognition and Measurement*, financial assets and financial liabilities are classified into certain categories. The classification of financial assets and financial liabilities affects how the respective financial instruments are measured after initial recognition. The classification of financial assets and financial liabilities and their measurement basis is specified as follows:

* Loans and receivables - are recognised at amortised cost
* Other financial liabilities - are recognised at amortised cost

The following table shows the classification of the Company's financial assets and liabilities:

31 December 2012	Cash and receivables	Financial liabilities	Carrying amount
Assets:			
Cash and cash equivalents	300.839	0	300.839
Trade receivables	465.866	0	465.866
Other short-term receivables	216.500	0	216.500
	983.205	0	983.205
Liabilities:			
Loans and borrowings		58.111.748	58.111.748
Trade payables		394.415	394.415
Other short-term liabilities		736.427	736.427
		59.242.590	59.242.590

31 December 2011	Cash and receivables	Financial liabilities	Carrying amount
Assets:			
Cash and cash equivalents	408.282	0	408.282
Trade receivables	561.888	0	561.888
Other short-term receivables	884.811	0	884.811
	1.854.981	0	1.854.981
Liabilities:			
Loans and borrowings		60.452.438	60.452.438
Trade payables		1.060.262	1.060.262
Other short-term liabilities		391.725	391.725
		61.904.425	61.904.425

15. Financial risk management

Overview

The following risks arise from the Company's financial instruments.

* Credit risk
* Liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the management of capital.

Financial risk management objectives

The Company's management monitors and manages the financial risks relating to the operations of the Company. These risks primarily include credit risks and liquidity risk and is being closely followed by the management. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

15. Financial risk management, contd.:

Credit risk

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations. Over 85% of the revenue is coming from long standing customers and the company has never had to write off considerable receiveables.

The Company's maximum possible loss due to financial assets with inherent credit risk is their carrying amount, which is specified as follows at year end:

	2012	2011
Trade receivables	465.866	561.888
Other short term receivables	216.500	884.811
Cash and cash equivalents	300.839	408.282
	983.205	1.854.981

The Company establishes an allowance for estimated impairment on trade receivables and other receivables. At year-end 2012 the allowance amounts to EUR 55.643 and has decreased by EUR 10.280 during the year 2012.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's objective is to always have sufficient liquidity to meet its payment obligations as they become due.

The following table shows the remaining contractual maturities at the end of the reporting period of financial liabilities and financial assets, including estimated interest payments:

Year end 2012	Carrying amount	Contractual cash flows	0 - 12 months	1 - 2 years	More than 2 years
Trade and other payables	1.130.842	1.130.842	1.130.842		
Long-term loans	58.111.748	119.849.531	4.936.512	4.582.603	110.330.415
	59.242.590	120.980.373	6.067.354	4.582.603	110.330.415
Trade receivables	465.866	465.866	465.866		
Other receivables	216.500	216.500	216.500		
Cash and cash equivalents	300.839	300.839	300.839		
	983.205	983.205	983.205	0	0
Net balance 31.12.2012	58.259.385	119.997.168	5.084.149	4.582.603	110.330.415

Year end 2011	Carrying amount	Contractual cash flows	0 - 12 months	1 - 2 years	More than 2 years
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
	61.512.700	118.084.582	10.357.620	9.253.329	98.473.633
Trade receivables	561.888	561.888	561.888	0	0
Other receivables	884.811	884.811	884.811	0	0
Cash and cash equivalents	408.282	408.282	408.282	0	0
	1.854.981	1.854.981	1.854.981	0	0
Net balance 31.12.2011	59.657.719	116.229.601	8.502.639	9.253.329	98.473.633

15. Financial instruments, contd.:

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the income of the Company or the value of its holdings of financial instruments.

Currency risk

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.

The Company's exposure to currency risk is specified as follows at year end:

Year 2012	**Assets**	**Liabilities**	**Net exposure**
JPY	0	986.269	(986.269)
USD	20	152.799	(152.779)
CHF	0	792.403	(792.403)
ISK	49.414	35.513.840	(35.464.426)
GBP	92.079	50.349	41.730
DKK	0	269.730	(269.730)
Net exposure	141.513	37.765.390	(37.623.877)

Year 2011			
JPY	0	1.331.441	(1.331.441)
USD	1.138	185.932	(184.794)
CHF	0	936.983	(936.983)
ISK	18.340	34.811.720	(34.793.380)
GBP	4.226	0	4.226
DKK	72.848	0	72.848
Net exposure	96.552	37.266.076	(37.169.524)

The following exchange rates applied during the year:

	Average exchange rate		**End of year exchange rate**	
	2012	**2011**	**2012**	**2011**
JPY	102,39	110,68	113,54	100,18
USD	1,29	1,39	1,32	1,29
CHF	1,21	1,23	1,21	1,22
ISK	161,18	161,87	170,27	159,28
GBP	0,81	0,87	0,82	0,84
DKK	7,44	7,45	7,46	7,43

15. Financial instruments, contd.:

Market risk

Sensitivity analysis

The table below shows what effects 5% and 10% strengthening of the relevant foreign currency rates 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 doses 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.

	31.12.2012		31.12.2011	
	5%	10%	5%	10%
JPY	(39.451)	(78.902)	(53.258)	(106.515)
USD	(6.111)	(12.222)	(7.392)	(14.784)
CHF	(31.696)	(63.392)	(37.479)	(74.959)
DKK	(10.789)	(21.578)	2.914	5.828
ISK	0	0	(1.391.735)	(2.783.470)
GBP	(1.669)	(3.338)	169	338

Interest rate risk

The Company is exposed to cash flow interest rate risk due to changes in interest rates of floating rate financial liabilities. As stated before, the Company endeavours to ensure it always has sufficient liquidity to meet its liabilities as they become due.

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.

Exposure to interest rate risk

Interest-bearing financial assets and liabilities are as follows at the year end:

	2012	2011
Financial instruments with fixed interest rate		
Financial liabilities	(1.901.657)	0
	(1.901.657)	0
Financial instruments with floating interest rate		
Financial assets	300.839	408.282
Financial liabilities	(56.210.091)	(60.452.438)
	(55.909.252)	(60.044.156)

Fair value sensitivity analysis for fixed interest rate instruments

Financial instruments with fixed interest rates are not measured at fair value. Therefore, a change in interest rates at the reporting date would not affect profit and loss or equity.

15. Financial instruments, contd.:

Cash flow sensitivity analysis for floating interest rate instruments

An increase or decrease in interest rates of 100 basis points at the reporting date would have increased (decreased) the return by the following amounts. This analysis is based on that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for the year 2011.

	Effect on profit or loss	
	100 bp increase	**100 bp decrease**
2012		
Financial instruments with floating interest rates	24	(24)
Cash flow sensitivity analysis, net	(449.681)	449.681
	(449.657)	449.657
2011		
Financial instruments with floating interest rates	1.633	(1.633)
Cash flow sensitivity analysis, net	(241.810)	241.810
	(240.177)	240.177

16. Related parties

The Company's related parties are shareholders, Board members, the CEO, and close family members of the aforementioned parties. No related parties purchased service from the company in 2012 and 2011 and Farice did not buy any goods or service from related parties in 2012 and 2011.

Two shareholders provided a loan to the company during the year 2012, convertible notes that amount to EUR 1.922.940 at year end 2012. The accrued interests amount to EUR 54 thousand at year end 2012.

The company has a public service agreement with the Telecommunication Fund that belongs to one shareholder. Further information on the public service agreement can be found in note 5.

17. 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 46,6% at year end 2012 (2011: 48,3%).

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.