

Eignarhaldsfélagið Farice ehf.

Consolidated Financial
2004

Eignarhaldsfélagið Farice ehf.
Hafnarhúsinu
101 Reykjavík

kt. 511203-2950

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Auditor's Report

To the board of directors and shareholders of Eignarhaldsfélagið Farice ehf.

We have audited the accompanying consolidated balance sheet of Eignarhaldsfélagið Farice ehf. as of December 31st 2004, and the related consolidated statement of income and cash flow for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Iceland. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

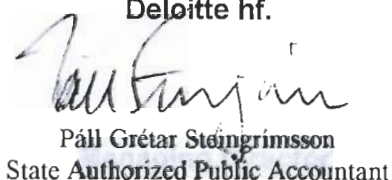
In our opinion, the financial statements give a true and fair view of the financial position of Eignarhaldsfélagið Farice ehf. as of December 31st 2004 and of the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles in Iceland applied on a consistent basis.



Brynjólfur Bjarnason

Reykjavík, February 25th 2005

Deloitte hf.



Páll Grétar Stópngrímsson
State Authorized Public Accountant



Ólafur Guðmundsson

Report by the Board of Directors and Managing Director

It is the opinion of the Board of Directors and the Managing Director that these Financial Statements present all the information necessary to show the position of the Consolidated Company at year-end, the operating results for the year and the financial developments during the year 2004.

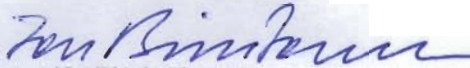
The consolidated company's net loss from operations amounted to € 1.154.723. The Board recommends that the loss will be carried forward to next year. Owners' equity at year end amounted to € 10.416.263.

At year-end, shareholders in the company numbered 3. All shareholders owned more than 10% of the shares in the Company.


The Board of Directors and Managing Director hereby confirm the Financial Statements for the year 2004 with their signatures.

Reykjavik, February 25th 2005

Board of Directors



Jón Birgir Jónsson
Chairman of the Board

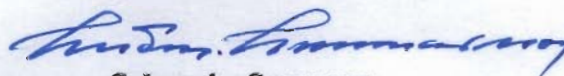


Brynjólfur Bjarnason



Eiríkur S. Jóhannsson

Managing Director



Guðmundur Gunnarsson

Income Statement for the year 2004

	Note	Group 2004	Group 2003
Operating revenue		6.027.509	0
Operating expenses		(1.739.247)	0
Administrative expenses		(711.205)	(265.047)
Depreciation	4	<u>(3.823.333)</u>	<u>0</u>
Operating loss		(246.277)	(265.047)
Net interest expence/income	11	(1.395.685)	(213.231)
Minority interest in net income (loss)		<u>187.964</u>	<u>93.400</u>
Net loss before taxes		(1.453.998)	(384.878)
Income tax	7	<u>299.275</u>	<u>0</u>
Net loss		<u><u>(1.154.723)</u></u>	<u><u>(384.878)</u></u>

Balance sheet

Asset			
	Note	Group 31.12.2004	Group 31.12.2003
Non current assets			
Cable system - Cable stations	4	5.599.129	3.271.201
Cable system - Wet section		32.817.376	34.527.306
Cable system - Common Items		3.626.024	2.921.534
Cable system - Cantat		8.865.508	0
Deferred tax asset	7	386.561	0
Non current assets		51.294.598	40.720.042
Current assets			
Accounts receivable		200.094	47.975
Other receivables		66.254	1.239.564
Unpaid stock subscription		0	148.469
Market securities		1.000.000	0
Bank deposits and cash		2.732.611	2.563.354
Current assets		3.998.959	3.999.362
Total assets		55.293.557	44.719.404

31. December 2004

Stockholders' equity and liabilities

	Note	Group 31.12.2004	Group 31.12.2003
Stockholders' equity	5,6		
Capital stock		11.868.544	10.561.044
Loss carry-forward		<u>(1.452.281)</u>	<u>(384.844)</u>
Stockholders' equity		<u>10.416.263</u>	<u>10.176.199</u>
 Minority interest in Stockholders' equity		 <u>2.372.427</u>	 <u>2.560.392</u>
 Long-term liabilities			
Long-term bonds	8	<u>40.900.000</u>	<u>0</u>
 Current liabilities			
Bridge loan.....		0	14.500.234
Accounts payable.....		1.247.830	17.376.624
Other current liabilities.....		<u>357.037</u>	<u>105.954</u>
		<u>1.604.867</u>	<u>31.982.813</u>
Liabilities		<u>44.877.294</u>	<u>34.543.205</u>
 Total stockholders' equity and liabilities		 <u><u>55.293.557</u></u>	 <u><u>44.719.404</u></u>

Statement of cash flows for the year 2004

	Note	Group 2004	Group 2003
Cash flows from operating activities			
Net loss before other income and expenses		(58.313)	(265.047)
Items not affecting cash		3.823.333	0
Changes in current assets and liabilities		(600.358)	(4.053.550)
Net cash used in operating activities before interest		3.164.662	(4.318.598)
Paid in interest income		75.785	71.626
Paid interest expenses		(1.415.038)	(284.857)
Net cash used in operating activities		1.825.410	(4.531.828)
Cash flows from investing activities			
Investment in fixed assets		(12.703.828)	(34.935.153)
Net cash provided by (used in) investing activities		(12.703.828)	(34.935.153)
Cash flows from financing activities			
Long-term borrowings		40.900.000	0
Short-term borrowings		0	45.965.354
Short-term liabilities repaid		(29.000.793)	(16.856.838)
Paid in capital stock		148.469	13.354.382
Net cash provided by (used in) financing activities		12.047.676	42.462.898
Increase in cash and cash equivalents		1.169.257	2.995.917
Effects of foreign exchange adjustments		0	(453.680)
Cash and cash equivalents at beginning of year		2.563.354	21.117
Cash and cash equivalents at end of the period		3.732.611	2.563.354

Notes to financial statements

Operations

1. The company was founded on December 11th 2003 by the three main holders of the Icelandic shares in Farice hf., the Icelandic Ministry of Communications, Landssími Íslands hf. and Og Fjarskipti hf. The purpose of the company is to insure save telecommunications between Iceland and its neighbour countries. The company started operating the Farice submarine cable in the year 2004.

Summary of accounting policies

2. The financial statements are in accordance with Icelandic law and generally accepted accounting principles. In all material respects are the financial statements consistent with the statements of the preceding year. Costing method is used.

By legislation of Icelandic Act no. 144/1994 on Financial Statements, Icelandic legal entities were permitted to report the results of their operations and financial positions in foreign currencies from 1. January 2002. Accordingly, the board of E-Farice hf. decided to report in euros, which is the consolidated companies' functional currency.

Accounting principles concerning other items of the financial statements are listed in the notes below.

The Consolidation

3. The Consolidated Financial Statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The Consolidated Financial Statements have been prepared using the purchase method of consolidation accounting. When ownership in subsidiaries is less than 100%, the minority interest in the subsidiaries' income or loss and stockholders equity is accounted for in the calculation of the consolidated income or loss and the consolidated stockholders equity.

One of the purposes of Consolidated Financial Statements is to show only the net external sales, expenses, assets and liabilities of the consolidated entities as a whole. Hence, intercompany transactions have been eliminated within the consolidated businesses in the presentation of the Consolidated Financial Statements.

The Consolidated Financial Statements of Eignarhaldsfélagið Farice ehf. pertain to the following subsidiaries.

Name of company	Place of registration and operation	Ownership	Principal activity
Farice hf.	Iceland/Faroe Islands	79,90%	Telecommunication

Notes to financial statements

Cable system and depreciations

4. Cable system items are recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the consolidation and the cost of the asset can be measured in a reliable manner. Cable system items which qualifies for recognition as an asset is initially measured at cost.

The cost of the cable system comprises its purchase price and directly attributable cost of bringing the asset to working condition for its intended use.

	Cable system Cable stations	Cable system Wet section	Cable system Common Items	Cable system Cantat	Total
Total value 1.1.....	3.271.201	34.527.306	2.921.534	0	40.720.041
Additions during the year.....	2.779.163	17.240	1.485.425	9.729.500	14.011.328
Depreciation during the year.....	(451.236)	(1.727.170)	(780.935)	(863.992)	(3.823.333)
	<u>5.599.128</u>	<u>32.817.376</u>	<u>3.626.024</u>	<u>8.865.508</u>	<u>50.908.036</u>
Depreciation ratio.....	10%	5%	20%	10%	

The depreciable amount of the asset is allocated on a straight-line basis over its useful life. The depreciation charge for each year is recognised as an expense, on the above mentioned basis.

Stockholders' equity

5. The capital stock is specified as follows:

	Shares	Per cent	Amount
The total capital stock at end of year.....	11.868.544	100,0%	11.868.544
Own shares.....	0	0,0%	0
	<u>11.868.544</u>	<u>100,0%</u>	<u>11.868.544</u>

Each share of one EUR carries one vote.

6. Changes in stockholders' equity are as follows:

	Capital stock	Retained earnings	Total
Stockholders' equity 1.1.....	10.561.044	(384.844)	10.176.200
Bought/sold own shares.....	1.307.500		1.307.500
Deferred tax asset.....		87.286	87.286
Net loss.....		(1.154.723)	(1.154.723)
	<u>11.868.544</u>	<u>(1.452.281)</u>	<u>10.416.263</u>

Notes to financial statements

Deferred tax

7. 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 years and it further excludes items that are never taxable or deductible. The consolidated company's current tax liability is calculated using the tax rates for each country.

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 basis used in the computation of taxable profit. Deferred tax liability 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.

	Deferred tax asset
At 1. January 2004	0
Deferred tax asset.....	87.286
Calculated tax for the year	299.275
At 31. December 2004.....	386.561

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

The following are the major deferred tax liabilities and assets recognised:

Fixed tangible assets.....	(979.750)
Loss carry-forward.....	1.366.311
	386.561

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

	Tax loss	Deferred tax
Available for 8 years	33.564	6.041
Available for 9 years	2.886.419	568.338
Available for 10 years	4.148.726	791.931
	7.068.709	1.366.310

Notes to financial statements

Long-term liabilities

8. Long-term liabilities are valued at nominal value less payments made and the remaining nominal balance is adjusted by exchange rate or index, if applicable.

	<u>Remaining balance</u>
Loans in EUR.....	40.900.000
Current maturities of long-term liabilities	<u>0</u>
Long-term liabilities as stated in balance sheet.....	<u><u>40.900.000</u></u>

9. Installments of long-term liabilities:

Current maturities.....	0
Installments 2006	3.240.833
Installments 2007.....	3.545.000
Installments 2008.....	3.545.000
Installments 2009.....	3.545.000
Installments later.....	<u>27.024.167</u>
	<u><u>40.900.000</u></u>

Other matters

10. Salaries and related expenses are specified as follows:

	<u>2004</u>	<u>2003</u>
Salaries.....	172.371	114.323
Salary-related expenses.....	47.789	23.162
	<u>220.160</u>	<u>137.485</u>
Average number of positions.....	1,90	1,20

11. Financial income and expenses are specified as follows:

	<u>2004</u>	<u>2003</u>
Other interest income.....	75.785	71.626
Interest expenses.....	(1.446.187)	(77.299)
Exchange-rate difference.....	(25.284)	(207.559)
	<u>(1.471.470)</u>	<u>(284.857)</u>
	<u>(1.395.685)</u>	<u>(213.231)</u>

Notes to financial statements

12. Segment information

	Faroe Islands Branch	Iceland Branch	Farice hf.
Operating revenue.....	1.150.000	4.205.500	5.355.500
Operating expenses	(363.854)	(1.375.393)	(1.739.247)
Administrative expenses.....	(156.059)	(555.080)	(711.139)
Depreciation.....	(518.152)	(2.441.189)	(2.959.341)
	<u>(1.038.065)</u>	<u>(4.371.662)</u>	<u>(5.409.727)</u>
Operating profit (loss).....	111.935	(166.162)	(54.227)
Net interest expence/income.....	(298.019)	(792.648)	(1.090.667)
Income tax.....	37.217	172.586	209.803
Net loss.....	<u>(148.867)</u>	<u>(786.224)</u>	<u>(935.091)</u>