

# **Eignarhaldsfélagið Farice ehf.**

Consolidated  
Financial Statements  
2005

Eignarhaldsfélagið Farice ehf.  
Skógarhlíð 12  
105 Reykjavík

kt. 511203-2950

# Eignarhaldsfélagið Farice ehf.

Consolidated  
Financial Statements  
2005

## Table of contents

Auditors' report.....	2
Report by the Board of Directors.....	3
Income Statement.....	4
Balance Sheet.....	5-6
Statement of Cash flow.....	7
Statement of Changes in Equity.....	8
Notes.....	9-19

# Auditor's Report

---

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

We have audited the accompanying balance sheet of Eignarhaldsfélagið Farice ehf. as of December 31, 2005 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 31, 2005 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.

Reykjavík April 28, 2006

Deloitte hf.  


Páll Grétar Steingrímsson  
State Authorized Public Accountant

# 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 of Eignarhaldsfélagið Farice ehf. present the necessary information to show the financial position of Eignarhaldsfélagið Farice ehf. at year-end, the operational results for the year and the financial development during the year 2005.

The financial statement of Eignarhaldsfélagið Farice ehf. was prepared for the first time in the interim financial statement for June 30, 2005 in accordance with International Financial Reporting Standards (IFRS). The effects of the changes to IFRS are explained in note 18 in the consolidated financial statements.


The consolidated company's net loss from operations amounted to € 571.821. The Board recommends that the loss will be carried forward to next year. Owners equity at year-end amounted to € 9.791.509.

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

The Board of Directors and Managing Director of Eignarhaldsfélagið Farice ehf. hereby confirm the consolidated financial statements for the year 2005 with their signatures.

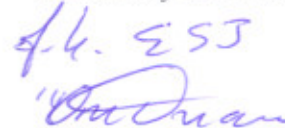
Reykjavík April 28, 2006

## Board of Directors


  
Jón Birgir Jónsson  
Chairman of the Board

  
Brynjólfur Bjarnason

Eiríkur S. Jóhannsson

  
Eiríkur S. Jóhannsson

## Managing Director

  
Guðmundur Gunnarsson

## Consolidated Income Statement for the year 2005

	Notes	2005	2004
<b>Operating revenue</b> .....	3	7.654.619	6.027.509
Operating expenses .....		(1.886.940)	(1.803.042)
Administrative expenses .....		(858.525)	(711.205)
Depreciation .....	8	<u>(4.069.252)</u>	<u>(3.771.984)</u>
<b>Operating income (loss)</b> .....		839.902	(258.723)
Minority interest in net loss (income) .....		86.981	201.281
Net financial expenses .....	6,14	<u>(1.645.384)</u>	<u>(1.465.090)</u>
		(1.558.403)	(1.263.809)
<b>Net loss before tax</b> .....		(718.500)	(1.522.532)
Income tax .....	15	<u>146.679</u>	<u>314.876</u>
<b>Net loss for the year</b> .....		<u><u>(571.821)</u></u>	<u><u>(1.207.656)</u></u>
Attributable to:			
Equity holders of the parent .....		(484.840)	(1.026.609)
Minority interest .....		<u>(86.981)</u>	<u>(181.047)</u>
		<u><u>(571.821)</u></u>	<u><u>(1.207.656)</u></u>
<b>Net (loss) earnings per share</b>			
Basic (net loss) / earnings per share .....	7	<u>-0,05</u>	<u>-0,10</u>

# Consolidated Balance Sheet

	Notes	31.12.2005	1.1.2005
<b>Asset</b>			
<b>Fixed assets</b>			
Cable stations .....	8	4.535.207	4.898.446
International waters .....		31.090.149	32.817.376
Cantat .....		7.892.558	8.865.508
Common Items .....		2.744.631	3.626.023
Prepaid lease .....		405.792	449.873
Deferred tax assets .....	15	548.841	402.162
		<u>47.217.179</u>	<u>51.059.388</u>
<b>Current assets</b>			
Accounts receivable .....	10	227.241	200.094
Other receivables .....		154.934	66.254
Market securities .....		4.000.000	1.000.000
Bank deposits and cash .....		1.665.690	2.732.611
		<u>6.047.865</u>	<u>3.998.959</u>
<b>Total assets</b>		<u>53.265.044</u>	<u>55.058.347</u>

## December 31, 2005

	Notes	31.12.2005	1.1.2005
<b>Equity and Liabilities</b>			
<b>Shareholders' equity</b>			
Share capital .....	11	11.868.544	11.868.544
Loss carry-forward .....	12	<u>(2.077.035)</u>	<u>(1.505.214)</u>
<b>Equity attributable to equity holders of the parent</b>		9.791.509	10.363.330
Minority interest .....		2.272.129	2.359.110
<b>Liabilities</b>			
<b>Long-term liabilities</b>			
Long-term bonds .....	13	<u>36.246.667</u>	<u>40.900.000</u>
<b>Current liabilities</b>			
Current maturities .....	13	3.920.000	0
Accounts payable .....		584.035	1.009.465
Other current liabilities .....		<u>450.704</u>	<u>426.442</u>
		<u>4.954.739</u>	<u>1.435.906</u>
 <b>Total equity and liabilities</b>		 <u><u>53.265.044</u></u>	 <u><u>55.058.347</u></u>

# Consolidated Statements of Cash Flows for the year 2005

	Notes	2005	2004
<b>Cash flows from operating activities</b>			
Net profit (loss) before other income and expenses .....		926.883	(258.723)
Items not affecting cash .....		4.069.252	3.771.984
Changes in current assets and liabilities .....		<u>(521.038)</u>	<u>(348.599)</u>
<b>Net cash provided (used) in operating activities before interest</b>		4.475.098	3.164.662
Paid in interest income .....	6	51.437	75.785
Paid interest expenses .....		<u>(1.735.677)</u>	<u>(1.415.037)</u>
<b>Net cash provided (used) in operating activities</b>		<u>2.790.857</u>	<u>1.825.410</u>
<b>Cash flows from investing activities</b>			
Investment in fixed assets .....		<u>(124.445)</u>	<u>(12.703.828)</u>
<b>Net cash provided by (used in) investing activities</b>		<u>(124.445)</u>	<u>(12.703.828)</u>
<b>Cash flows from financing activities</b>			
Long-term borrowings .....		0	11.899.207
Long-term liabilities repaid .....		(733.333)	0
Paid in capital stock .....		<u>0</u>	<u>148.469</u>
<b>Net cash provided by (used in) financing activities</b>		<u>(733.333)</u>	<u>12.047.676</u>
<b>Increase in cash and cash equivalents .....</b>		1.933.079	1.169.257
<b>Cash and cash equivalents at beginning of year .....</b>		<u>3.732.611</u>	<u>2.563.354</u>
<b>Cash and cash equivalents at end of year .....</b>		<u>5.665.690</u>	<u>3.732.611</u>

## Consolidated Statement of changes in Equity for the year ended December 31, 2005

	Share capital	Loss carry-forward	Equity holders of the parent	Minority	Total equity
Balance at January 1, 2004.....	10.561.044	(384.844)	10.176.200	2.560.391	12.736.591
Deferred tax asset.....	0	87.286	87.286	0	87.286
Bought own shares.....	1.307.500	0	1.307.500	0	1.307.500
Net (loss) for the year.....	<u>0</u>	<u>(1.154.723)</u>	<u>(1.154.723)</u>	<u>(187.964)</u>	<u>(1.342.687)</u>
Balance at December 31, 2004.....	<u>11.868.544</u>	<u>(1.452.281)</u>	<u>10.416.263</u>	<u>2.372.427</u>	<u>12.788.690</u>
Balance at December 31, 2004.....	11.868.544	(1.452.281)	10.416.263	2.372.427	12.788.690
Effects of transition to IFRS.....	<u>0</u>	<u>(52.933)</u>	<u>(52.933)</u>	<u>(13.317)</u>	<u>(66.250)</u>
Balance at January 1, 2005.....	11.868.544	(1.505.214)	10.363.330	2.359.110	12.722.440
Net (loss) for the year.....	<u>0</u>	<u>(571.821)</u>	<u>(571.821)</u>	<u>(86.981)</u>	<u>(658.802)</u>
Balance at December 31, 2005.....	<u>11.868.544</u>	<u>(2.077.035)</u>	<u>9.791.509</u>	<u>2.272.129</u>	<u>12.063.638</u>

# Notes to financial statements

---

## 1. General information

Eignarhaldsfélagið Farice ehf. (The Group) is a limited company incorporated in Iceland. The addresses of its registered office and a principal place of business can be found on page 1.

The company was founded on December 11<sup>th</sup> 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 principal activities of the company and its subsidiaries is to insure safe telecommunications between Iceland and its neighbour countries. The company started operating the Farice submarine cable in the year 2004.

These financial statements are presented in euros since that is the functional currency in which the majority of the Group's transactions are denominated.

## 2. Summary of Significant Accounting Policies

### Statement of Compliance

The condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS's) for financial statements (IAS 34). These are the Group's first IFRS condensed consolidated financial statements and IFRS 1, First Time Adoption of International Financial Reporting Standards, has been applied.

An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Group is provided in note 18. This note includes reconciliations of equity and profit or loss for comparative periods reported under Icelandic GAAP (previous GAAP) to those reported for the periods under IFRS.

### Basis of Preparation

The consolidated financial statements are prepared under the historical cost convention except for revaluation of certain financial instruments.

The preparation of the consolidated financial statements in conformity with IAS 34, Interim Financial Reporting, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The principal accounting policies adopted are set out below.

### Basis of Consolidation

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.

# Notes to financial statements

---

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.

## Revenue Recognition

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

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

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

## Foreign Currencies

Transactions in currencies other than euro 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 assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

## 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 Group intends to settle its current tax assets and liabilities on a net basis.

# Notes to financial statements

---

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates for each country that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## Property, plant and equipment

Cable system 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 which qualifies for recognition as an asset is initially measured at cost.

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

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 following bases:

Point of Presence (PoP).....	10%
Backhaul.....	10%
Cable stations.....	10%
Wet section.....	5%
Common items.....	20%
Cantant.....	10%

## Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible 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 Group 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.

# Notes to financial statements

---

## Accounts receivable

Accounts receivables are valued at nominal value less an allowance for doubtful accounts. The allowance is deducted from accounts receivable in the balance sheet and does not represent a final write-off. Accounts receivable in other currencies than euro, have been entered at the exchange rates prevailing on the balance sheet date.

## Long-term liabilities

Long-term liabilities are valued at nominal value less payments made and the remaining nominal balance is adjusted by exchange rate or index, if applicable. Interest expense is accrued on a periodical basis, based on the principal outstanding and at the interest rate applicable.

## Accounts payable

Accounts payable are valued at nominal value and accounts payable in other currencies than euro have been booked at the exchange rates prevailing on the balance sheet date.

## Derivative financial instruments

The Group uses derivative financial instruments to hedge its risk for changes in interest rates. Those financial instruments are interest rate swap contracts.

The use of financial derivatives is governed by the group's policies approved by the board of directors, which provide written principles on the use of financial derivatives.

## Provisions

Provision is recognised when an enterprise has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for restructuring costs are recognised when the company has a detailed formal plan for the restructuring which has been notified to affected parties.

## 3. Revenue

Net sales are specified as follows:

	2005	2004
Lease of bandwidth - Farice 1 .....	6.557.615	5.255.500
Lease of bandwidth - Cantat .....	1.097.004	772.008
	<u>7.654.619</u>	<u>6.027.509</u>

# Notes to financial statements

## 4. Geographical segments

The consolidation uses geographical markets as its primary segments. Segment information is presented below, according to location of customers:

Segment information

	E-Farice Iceland	Faroe Islands Branch	Iceland Branch	Eliminations	Consolidated
Total revenues.....	6.377.000	1.302.620	5.355.002	(5.380.003)	7.654.619
Operating expenses .....	(5.279.997)	(430.153)	(1.456.787)	5.279.997	(1.886.940)
Administrative expenses.....	(100.096)	(182.341)	(676.094)	100.006	(858.525)
Depreciation.....	(972.950)	(506.358)	(2.589.944)	0	(4.069.252)
	<u>(6.353.042)</u>	<u>(1.118.852)</u>	<u>(4.722.825)</u>	<u>5.380.003</u>	<u>(6.814.717)</u>
Operating profit (loss).....	23.958	183.768	632.177	0	839.902
Net interest expence/income.....	(299.671)	(268.435)	(1.077.277)	0	(1.645.384)
Minority interest.....				86.981	86.981
Income tax.....	49.628	16.933	80.118	0	146.679
	<u>49.628</u>	<u>16.933</u>	<u>80.118</u>	<u>0</u>	<u>146.679</u>
Net loss.....	<u>(226.085)</u>	<u>(67.735)</u>	<u>(364.982)</u>	<u>86.981</u>	<u>(571.821)</u>

## 5. Salaries

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

	2005	2004
Salaries.....	198.144	172.371
Salary-related expenses.....	57.729	47.789
	<u>255.873</u>	<u>220.160</u>
Average number of positions.....	1,75	1,90

## 6. Financial income / (expenses)

	2005	2004
<b>Income from investments:</b>		
Interest on bank deposits.....	87.713	75.785
<b>Finance costs:</b>		
Interest on bank loans.....	(1.763.896)	(1.515.592)
Exchange rate differences.....	30.799	(25.284)
	<u>(1.733.096)</u>	<u>(1.540.875)</u>
	<u>(1.645.384)</u>	<u>(1.465.090)</u>

## Notes to financial statements

### 7. Earnings per share

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

	2005	2004
Net profit (loss) for the year.....	(571.821)	(1.207.656)
Total average number of shares including potential shares .....	11.868.544	11.868.544
Basic Earnings (loss) per Share .....	(0,05)	(0,10)

### 8. Property, plant and equipment

	Cable stations	Wet section	Common Items	Cantat	Total
<b>Cost</b>					
At January 1, 2005.....	5.298.333	34.544.546	4.406.959	9.729.500	53.979.338
Additions.....	124.445	0	0	0	124.445
At December 31, 2005.....	5.422.778	34.544.546	4.406.959	9.729.500	54.103.783
<b>Accumulated depreciation</b>					
At January 1, 2005.....	399.887	1.727.170	780.935	863.992	3.771.984
Charge for the year.....	487.683	1.727.227	881.392	972.950	4.069.252
At December 31, 2005.....	887.570	3.454.397	1.662.327	1.836.942	7.841.236
<b>Carrying Amount</b>					
At December 31, 2005.....	4.535.207	31.090.149	2.744.631	7.892.558	46.262.547
At January 1, 2005.....	4.898.446	32.817.376	3.626.024	8.865.508	50.207.354

### 9. The Consolidation

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

## 10. Other financial assets

### Accounts receivable:

	<u>31.12.2005</u>	<u>1.1.2005</u>
Nominal value.....	227.241	200.094

### Bank balances and cash:

Bank balances and cash comprise cash and short-term deposits held by the Consolidation treasury function. The carrying amount of these assets approximates their fair value.

## 11. Share capital

Share capital is as follows.:

	<u>Shares</u>	<u>Ratio</u>	<u>Nominal value</u>
Total share capital at year-end.....	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 euro carries one vote.

## 12. Loss carry-forward

	<u>Loss carry-forward</u>
Balance at January 1, 2005.....	(1.505.214)
Net loss for the year.....	(571.821)
Balance at December 31, 2005.....	<u>(2.077.035)</u>

## 13. Loans from credit institutions

	<u>Remaining balances 31.12.2005</u>
Loans in EUR .....	36.246.667
Current maturities.....	<u>3.920.000</u>
Loans from credit institutions.....	<u>40.166.667</u>

# Notes to financial statements

Aggregated annual maturities are as follows:

Current maturities.....	3.920.000
Installments 2007.....	3.920.000
Installments 2008.....	3.920.000
Installments 2009.....	3.186.667
Installments 2010.....	7.360.000
Installments later.....	17.860.000
	<u>40.166.667</u>

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

## 14. Derivative financial instruments

### Interest Rate Swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Contracts with nominal values of 23,5 million euros have fixed interest payments at an average rate of 4,72 per cent for periods up until 2015 and have floating interest receipts at 0,59 per cent plus LIBOR and the differences amounts to swap rates.

## 15. Deferred tax

	Deferred tax asset	Deferred tax liabilities	Total
At January 1, 2005.....	402.162	0	402.162
Calculated tax for the year.....	146.679	0	146.679
At December 31, 2005.....	<u>548.841</u>	<u>0</u>	<u>548.841</u>

There is no deferred income tax liability credited in the balance sheet due to taxation loss carry forward, even though income tax liability is related to some individual items of the balance sheet. The following are the major deferred tax liabilities and assets recognised:

Fixed tangible assets.....	(1.420.726)
Loss carry-forward.....	1.969.566
	<u>548.841</u>

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

	Tax loss	Deferred tax
Available for 7 years .....	33.564	6.042
Available for 8 years .....	2.885.472	568.128
Available for 9 years .....	3.678.114	705.257
Available for 10 years .....	3.334.531	640.514
	<u>9.931.681</u>	<u>1.919.940</u>

# Notes to financial statements

---

## 16. Litigation

There are two issues which both involve Farice hf. and the EFTA Surveillance Authority in Brussels. The first issue concerns a formal request for information from the EFTA Surveillance Authority, of 6 May 2004, for information concerning the compatibility of the Farice project with the rules on competition in the EEA Agreement. This issue is still being processed and no formal investigation has been decided.

The second issue concerns State Aid matters. In May 2005 the EFTA Surveillance Authority decided to initiate a formal investigation into the issue of State Aid towards the Farice project. This investigation is expected to take quite a long time, even 1-2 years.

## 17. Approval of financial statements

The Consolidated Financial statements were approved by the board of directors and authorised for issue on April 10, 2006.

## 18. Transition to IFRS

As discussed in the note on accounting policies, this is the first time the Group prepares its annual accounts in accordance with International Financial Reporting Standards (IFRS).

Amounts in the opening balance sheet as of January 1, 2005 have been changed in accordance with IFRS but were previously presented in accordance with legislation on annual accounts and Icelandic GAAP. The following tables and notes show the effects the change from Icelandic GAAP to IFRS has had on the financial position of the Group, its financial results and cash flows.

### Shareholders' equity at January 1, 2005:

#### Equity January 1, 2005:

Equity according to accounting policies December 31, 2004.....	10.416.263
Equity according to accounting policies January 1, 2005.....	10.363.330
<b>Decrease from former accounting policies</b>	<b><u>(52.933)</u></b>

## Notes to financial statements

<b>Asset</b>	<b>Previous GAAP 31.12.2004</b>	<b>Effects of transition to IFRS</b>	<b>IFRS 1.1.2005</b>
<b>Fixed assets</b>			
Cable stations .....	5.599.130	(700.684)	4.898.446
International waters .....	32.817.376	0	32.817.376
Common Items .....	3.626.023	0	3.626.023
Cantat .....	8.865.508	0	8.865.508
Prepaid lease .....	0	449.873	449.873
Deferred tax asset .....	386.561	15.601	402.162
	<u>51.294.598</u>	<u>(235.210)</u>	<u>51.059.388</u>
<b>Current assets</b>			
Accounts receivable .....	200.094	0	200.094
Other receivables .....	66.254	0	66.254
Market securities .....	1.000.000	0	1.000.000
Bank deposits and cash .....	2.732.611	0	2.732.611
	<u>3.998.959</u>	<u>0</u>	<u>3.998.959</u>
<b>Total assets</b>	<u><u>55.293.557</u></u>	<u><u>(235.210)</u></u>	<u><u>55.058.347</u></u>

## Notes to financial statements

	Previous GAAP 31.12.2004	Effects of transition to IFRS	IFRS 1.1.2005
<b>Stockholders' equity and liabilities</b>			
<b>Stockholders' equity</b>			
Capital stock .....	11.868.544	0	11.868.544
Loss carry-forward .....	(1.452.281)	(52.933)	(1.505.214)
<b>Shareholders' equity</b>	<u>10.416.263</u>	<u>(52.933)</u>	<u>10.363.330</u>
Minority interest .....	<u>2.372.427</u>	<u>(13.317)</u>	<u>2.359.110</u>
<b>Liabilities</b>			
<b>Long-term liabilities</b>			
Long-term bonds .....	<u>40.900.000</u>	<u>0</u>	<u>40.900.000</u>
<b>Current liabilities</b>			
Accounts payable .....	1.247.830	(238.365)	1.009.465
Derivative financial instrument .....		83.653	83.653
Other current liabilities .....	357.037	(14.248)	342.789
	<u>1.604.867</u>	<u>(168.960)</u>	<u>1.435.907</u>
<b>Total equity and liabilities</b>	<u><u>55.293.557</u></u>	<u><u>(235.210)</u></u>	<u><u>55.058.347</u></u>