

Farice hf.

Financial statements
year 2003

Farice hf.
Hafnarhúsinu
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kt. 580902-2190

Farice hf.

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Auditor's Report

To the board of directors and shareholders of Farice hf.

We have audited the accompanying consolidated balance sheet of Farice hf. as of December 31st 2003, 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 Farice hf. as of December 31st 2003 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.

Reykjavik, April 6th 2004

 Deloitte hf.



Páll Grétar Steingrímsson
State Authorized Public Accountant

Board of Directors and Managers Report

In the year 2003 the consolidated company's loss from operations amounted to €464.649. The board recommends that the loss will be carried forward to next year. Owners' equity at year end amounted to € 12.737.538.

At the year end the company had 7 shareholders, two parties owned more than 10% of the capital, a total of 99%.

The board of directors and managing director hereby confirm the company's financial statements for the year 2003 by their signature.

Reykjavík, April 6th 2004

The board of directors



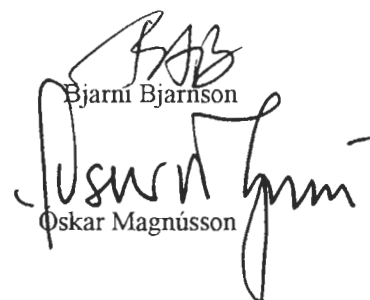
Jón Birgir Jónsson
Chairman of the board



Andras Roin



Brynjólfur Bjarnason



Bjarni Bjarnson

Oskar Magnússon

Manager



Guðmundur Gunnarsson

Income Statement for the year 2003

	Skýr.	2003 EUR	2002 EUR
Operating revenue.....		0	0
Administrative expenses		(264.067)	(33.477)
Depreciation		<u>0</u>	<u>0</u>
Operating income (loss).....		(264.067)	(33.477)
Net interest expence/income		(200.582)	450
Net income (loss)		<u>(464.649)</u>	<u>(33.027)</u>

Balance sheet

Asset	Note	31.12.2003 EUR	31.12.2002 EUR
Fixed assets			
Fixed tangible assets			
Submarine cable system - Iceland		112.307	0
Submarine cable system - Faroe Islands		144.710	0
Submarine cable system - Scotland		3.014.185	490.601
Submarine cable system - Wet section		34.527.306	3.308.682
Submarine cable system - Common Items		2.921.534	1.985.606
		40.720.042	5.784.889
Fixed assets		40.720.042	5.784.889
Current assets			
Receivables			
Accounts receivable		47.975	0
Other receivables		1.239.564	115.771
Unpaid stock subscription		148.469	167.631
Prepaid expenses		0	1.889
		1.436.008	285.291
Cash and cash equivalents			
Bank deposits and cash.....		2.563.354	21.117
		2.563.354	21.117
Current assets		3.999.362	306.408
Total assets		44.719.404	6.091.297

31. December 2003

Stockholders' equity and liabilities

	Note	31.12.2003 EUR	31.12.2002 EUR
Stockholders' equity			
Capital stock		13.689.662	354.442
Translation reserves		(454.447)	(733)
Retained earnings		(497.677)	(33.027)
Stockholders' equity		12.737.538	320.682
Liabilities			
Current liabilities			
Bridge loan.....		14.500.234	0
Accounts payable.....		17.375.677	5.770.615
Liabilities to parent company		0	0
Other current liabilities.....		105.954	0
		31.981.866	5.770.615
Liabilities		31.981.866	5.770.615
Total stockholders' equity and liabilities			
		44.719.404	6.091.297

Statement of cash flows for the year 2003

	Skýr.	2003 EUR	2002 EUR
Cash flows from operating activities			
Net loss before other income and expenses		(264.067)	(33.477)
Changes in current assets and liabilities		10.560.299	(286.026)
Net cash used in operating activities before interest		10.296.232	(319.503)
Paid in interest income		71.624	600
Paid interest expenses		(272.206)	(150)
Net cash used in operating activities		10.095.650	(319.053)
Cash flows from investing activities			
Investment in real estate		(34.935.153)	(5.784.887)
Net cash provided by (used in) investing activities		(34.935.153)	(5.784.887)
Cash flows from financing activities			
Short-term borrowings		14.500.234	5.770.615
Paid in capital stock		13.335.220	354.442
Net cash provided by (used in) financing activities		27.835.454	6.125.057
Increase in cash and cash equivalents		2.995.951	21.117
Effects of foreign exchange adjustments		(453.714)	0
Cash and cash equivalents at beginning of year		21.117	0
Cash and cash equivalents at end of year		2.563.354	21.117

Notes to financial statements

Summary of accounting policies

- 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.

Indexed and denominated in foreign currencies assets and liabilities are entered in accordance with valid index at year end and converted to ISK at exchange-rate at year-end respectively.

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

Fixed tangible assets and depreciation

- Fixed tangible assets are specified as follows:

	Subm. c. syst. Iceland	Subm. c. syst. Faroe Islands	Subm. c. syst. Scotland	Subm. c. syst. Wet section	Subm. c. syst. Common Items
Total value 1.1.....	0	0	490.601	3.308.682	1.985.606
Previously depreciated.....	0	0	0	0	0
Book value 1.1.....		0	490.601	3.308.682	1.985.606
Additions during the year.....	112.307	144.710	2.523.583	31.218.624	935.928
	<u>112.307</u>	<u>144.710</u>	<u>3.014.184</u>	<u>34.527.306</u>	<u>2.921.534</u>
Depreciation ratio.....	0%	0%	0%	0%	0%

Depreciation is calculated on a straight-line basis, based on restated original cost in accordance with time of ownership and is recorded at the average exchange rate level of the year. The company will start its operation in the year 2004 and therefore depreciation is not calculated in these Financial Statements.

Stockholders' equity

- The capital stock is specified as follows:

	Shares	Per cent	Amount
The total capital stock at end of year.....	13.689.662	100,0%	13.689.662
Own shares.....	0	0,0%	0
	<u>13.689.662</u>	<u>100,0%</u>	<u>13.689.662</u>

Each share of one EUR carries one vote.

Notes to financial statements

4. Changes in stockholders' equity are as follows:

	Capital stock	Translation reserves	Retained earnings	Total
Stockholders' equity 1.1.....	354.442	(733)	(33.027)	320.682
Increase in capital stock.....	13.335.220			13.335.220
Exchange differences.....		(453.714)		(453.714)
Net income.....			(464.649)	(464.649)
	13.689.662	(454.447)	(497.677)	12.737.538

Other matters

5. Among the company 's current liabilities is a short term bridge loan. Arrangements have been made to refinance that loan in 2004 with a new long term loan.

6. Financial income and expenses are specified as follows:

	2003 EUR	2002 EUR
Other interest income.....	71.624	600
	71.624	600
Interest expenses.....	(77.299)	0
Exchange-rate difference.....	(194.908)	(150)
	(272.206)	(150)
	(200.582)	450