

Farice hf.

Financial statements
year 2004

Farice hf.
Hafnarhúsinu
101 Reykjavík

kt. 580902-2190

Farice hf.

Financial statements 2004

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Auditor's Report

To the board of directors and shareholders of Farice hf.

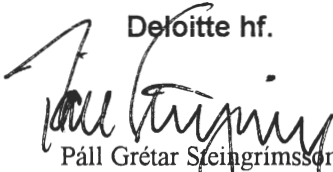
We have audited the accompanying consolidated balance sheet of Farice hf. as of December 31st 2004, and the related consolidated statement of income and cash flow for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an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

Reykjavík, February 25th 2005

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 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.

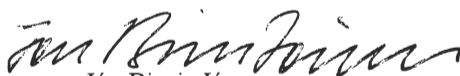
The consolidated company's net loss from operations amounted to € 935.091. The Board recommends that the loss will be carried forward to next year. Owners' equity at year end amounted to € 11.889.562.

At year-end, shareholders in the company numbered 7. Two shareholders owned more than 10% of the shares in the Company, a total of 99%

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



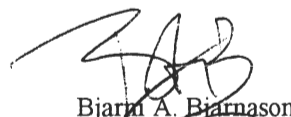
Jón Birgir Jónsson
Chairman of the Board



Andras Roin



Brynjólfur Bjarnason



Bjarni A. Bjarnason



Eiríkur S. Jóhannsson

Managing Director



Guðmundur Gunnarsson

Income Statement for the year 2004

	Note	2004	2003
Operating revenue		5.355.500	0
Operating expenses		(1.739.247)	0
Administrative expenses		(711.139)	(264.067)
Depreciation	2	<u>(2.959.341)</u>	<u>0</u>
Operating loss		(54.227)	(264.067)
Net interest expense/income	9	(1.090.667)	(200.582)
Net loss before taxes		(1.144.894)	(464.649)
Income tax	5	<u>209.803</u>	<u>0</u>
Net loss		<u><u>(935.091)</u></u>	<u><u>(464.649)</u></u>

Balance sheet

Asset			
	Note	31.12.2004	31.12.2003
Non current assets			
Cable system - Iceland	2	332.915	112.307
Cable system - Faroe Islands		644.029	144.710
Cable system - Scotland		4.622.184	3.014.184
Cable system - Wet section		32.817.376	34.527.306
Cable system - Common Items		3.626.024	2.921.535
Deferred tax asset	5	296.918	0
Non current assets		42.339.447	40.720.042
Current assets			
Accounts receivable		744.453	47.975
Other receivables		65.972	1.239.564
Unpaid stock subscription		0	148.469
Market securities.....		1.000.000	0
Bank deposits and cash.....		1.607.749	2.563.354
Current assets		3.418.174	3.999.362
Total assets		45.757.621	44.719.404

31. December 2004

Stockholders' equity and liabilities

	Note	31.12.2004	31.12.2003
Stockholders' equity	4,5		
Capital stock		13.689.662	13.689.662
Loss carry-forward		<u>(1.800.100)</u>	<u>(952.124)</u>
Stockholders' equity		<u>11.889.562</u>	<u>12.737.538</u>
Long term liabilities			
Long-term bonds	6	<u>32.300.000</u>	<u>0</u>
Current liabilities			
Bridge loan.....		0	14.500.234
Accounts payable.....		1.247.831	17.375.677
Other current liabilities.....		<u>320.228</u>	<u>105.955</u>
		<u>1.568.059</u>	<u>31.981.866</u>
Liabilities		<u>33.868.059</u>	<u>31.981.866</u>
Total stockholders' equity and liabilities		<u><u>45.757.621</u></u>	<u><u>44.719.404</u></u>

Statement of cash flows for the year 2004

	Note	2004	2003
Cash flows from operating activities			
Net loss before other income and expenses		(54.227)	(264.067)
Items not affecting cash		2.959.341	0
Changes in current assets and liabilities		(980.923)	(4.067.145)
Net cash used in operating activities before interest		1.924.191	(4.331.212)
Paid in interest income		72.966	71.624
Paid interest expenses		(1.118.610)	(272.206)
Net cash used in operating activities		878.547	(4.531.794)
Cash flows from investing activities			
Investment in fixed assets		(4.281.828)	(34.935.153)
Net cash provided by (used in) investing activities		(4.281.828)	(34.935.153)
Cash flows from financing activities			
Long-term borrowings		32.300.000	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		3.447.676	42.462.898
Increase in cash and cash equivalents		44.395	2.995.951
Effects of foreign exchange adjustments		0	(453.714)
Cash and cash equivalents at beginning of year		2.563.354	21.117
Cash and cash equivalents at end of year		2.607.749	2.563.354

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.

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 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.

Cable system and depreciations

- 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 Iceland	Cable system Faroe Islands	Cable system Scotland
Total value 1.1.....	112.307	144.710	3.014.184
Additions during the year.....	234.493	518.108	2.026.562
Depreciation during the year.....	(13.885)	(18.789)	(418.562)
	<u>332.915</u>	<u>644.029</u>	<u>4.622.184</u>
Depreciation ratio.....	10%	10%	10%

	Cable system Wet section	Cable system Common Items	Total
Total value 1.1.....	34.527.306	2.921.535	40.720.042
Additions during the year.....	17.240	1.485.425	4.281.828
Depreciation during the year.....	(1.727.170)	(780.935)	(2.959.341)
	<u>32.817.376</u>	<u>3.626.025</u>	<u>42.042.529</u>
Depreciation ratio.....	5%	20%	

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 price level of the year.

Notes to financial statements

Stockholders' equity

3. 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%	
	13.689.662	100,0%	13.689.662

Each share of one ISK carries one vote.

4. Changes in stockholders' equity are as follows:

	Capital stock	Retained earnings	Total
Stockholders' equity 1.1.....	13.689.662	(952.124)	12.737.538
Deferred income tax		87.115	87.115
Net loss.....		(935.091)	(935.091)
	13.689.662	(1.800.100)	11.889.562

Deferred tax

5. 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 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.....	87.115
Calculated tax for the year	209.803
At 31. December 2004.....	296.918

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 recognised:

Fixed tangible assets.....	(960.138)
Loss carry-forward.....	1.257.055
	296.918

Notes to financial statements

At balance sheet date Farice hf. 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	2.885.472	568.128
Available for 10 years	3.542.700	682.886
	6.461.736	1.257.054

Long-term liabilities

6. Summary of long-term liabilities:

	Remaining balance
Loans in foreign currencies:	
Loans in EUR.....	32.300.000
Current maturities of long-term liabilities	0
Long-term liabilities as stated in balance sheet.....	32.300.000

7. Installments of long-term liabilities:

Current maturities.....	0
Installments 2006	1.520.833
Installments 2007.....	1.825.000
Installments 2008.....	1.825.000
Installments 2009.....	1.825.000
Installments later.....	25.304.167
	32.300.000

Other matters

8. Salaries and related expenses are specified as follows:

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

Notes to financial statements

9. Financial income and expenses are specified as follows:

	2004	2003
Other interest income.....	72.966	71.624
Interest expenses.....	(1.137.650)	(77.299)
Exchange-rate difference.....	(25.983)	(194.908)
	(1.163.633)	(272.206)
	(1.090.667)	(200.582)

10. 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)
	(1.038.065)	(4.371.662)	(5.409.727)
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.....	(148.867)	(786.224)	(935.091)