

Farice hf.

Financial Statements

2006

Farice hf.
Skógarhlíð 12
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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 Farice hf. present the necessary information to show the financial position of Farice hf. at year-end, the operational results for the year and the financial development during the year 2006.

The Company's net loss from operations amounted to € 319.165. The Board recommends that the loss will be carried forward to next year. Owners equity at year-end amounted to € 11.071.431.

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

The Board of Directors and Managing Director of Farice hf. hereby confirm the Financial Statements for the year 2006 with their signatures.

Tórshavn March 27, 2007

Board of Directors

Jón Birgir Jónsson
Chairman of the Board

Kristian R. Davidsen

Bjarni A. Bjarnason

Brynjólfur Bjarnason

Árni Pétur Jónsson

Managing Director

Guðmundur Gunnarsson

Income Statement for the year 2006

	Notes	2006	2005
Operating revenue.....	3	6.957.600	6.657.622
Operating expenses		(2.049.465)	(1.886.940)
Administrative expenses		(914.755)	(858.435)
Depreciation	8	(3.062.001)	(3.096.302)
Net profit (loss) from operation.....		<u>931.379</u>	<u>815.945</u>
Financial expenses	6,13	(1.321.008)	(1.345.713)
Net loss before tax		(389.629)	(529.768)
Income tax	14	70.464	97.051
Net loss for the year		<u><u>(319.165)</u></u>	<u><u>(432.717)</u></u>

Balance Sheet

Asset	Notes	31.12.2006	31.12.2005
Fixed assets			
Point of Presence	8	182.670	202.964
Backhaul		4.540.927	3.516.725
Cable stations		726.094	815.519
International Waters		29.362.922	31.090.149
Common items		2.026.787	2.744.631
Deferred tax asset	14	480.034	409.570
Prepaid lease		359.912	405.792
		<u>37.679.346</u>	<u>39.185.350</u>
Current assets			
Accounts receivable	9	195.662	227.241
Related parties receivables		194.541	0
Other receivables		282.188	153.513
Market securities		2.000.000	4.000.000
Bank deposits and cash		691.522	1.022.779
		<u>3.363.913</u>	<u>5.403.534</u>
Total assets		<u>41.043.259</u>	<u>44.588.883</u>

December 31, 2006

Equity and liabilities	Notes	31.12.2006	31.12.2005
Shareholders' equity			
Share capital	10	13.689.662	13.689.662
Loss carry-forward	11	(2.618.231)	(2.299.066)
		<u>11.071.431</u>	<u>11.390.596</u>
Liabilities			
Long-term liabilities			
Long-term bonds	12	<u>27.166.667</u>	<u>29.366.667</u>
Current liabilities			
Accounts payable		153.156	1.250.178
Current maturities	12	2.200.000	2.200.000
Other current liabilities		452.006	381.442
		<u>2.805.162</u>	<u>3.831.621</u>
Total equity and liabilities		<u><u>41.043.259</u></u>	<u><u>44.588.883</u></u>

Statement of cash flows for the year 2006

	Notes	2006	2005
Cash flows from operating activities			
Net loss before other income and expenses		931.379	815.945
Items not affecting cash		3.062.001	3.096.302
Changes in current assets and liabilities		(1.028.601)	744.305
Net cash provided (used in) operating activities before interest		<u>2.964.779</u>	<u>4.656.552</u>
Paid in interest income		17.510	40.050
Paid interest expenses		(1.387.592)	(1.423.793)
Net cash provided (used in) operating activities		<u>1.594.697</u>	<u>3.272.809</u>
Cash flows from investing activities			
Investment in fixed assets		(1.531.413)	(124.445)
Related parties		(194.541)	0
Net cash provided by (used in) investing activities		<u>(1.725.955)</u>	<u>(124.445)</u>
Cash flows from financing activities			
Long-term liabilities repaid		(2.200.000)	(733.333)
Net cash provided by (used in) financing activities		<u>(2.200.000)</u>	<u>(733.333)</u>
Increase (decrease) in cash and cash equivalents		(2.331.258)	2.415.031
Cash and cash equivalents at beginning of year		5.022.779	2.607.749
Cash and cash equivalents at end of year		<u><u>2.691.522</u></u>	<u><u>5.022.780</u></u>

Statement of changes in Equity for the year ended December 31, 2006

	Share capital	Loss carry-forward	Total equity
Balance at January 1, 2006.....	13.689.662	(2.299.066)	11.390.596
Net (loss) for the year.....	<u>0</u>	<u>(319.165)</u>	<u>(319.165)</u>
Balance at December 31, 2006.....	<u>13.689.662</u>	<u>(2.618.231)</u>	<u>11.071.431</u>

Notes to financial statements

1. Operations

Farice hf. 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.

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

The company has operations in Iceland, the Faroe Islands and the United Kingdom. The income originates in Iceland and the Faroe Islands while the operating expenses originate in all three countries.

2. Summary of Significant Accounting Policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS's) for financial statements.

Basis of preparation

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

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and 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.

Notes to financial statements

2. Summary of Significant Accounting Policies (continued)

Foreign currencies

Transactions in currencies other than euros 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 company's intends to settle its current tax assets and liabilities on a net basis.

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

Property, plant and equipment are recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the company and the cost of the asset can be measured in a reliable manner.

Property, plant and equipment which qualifies for recognition as an asset is initially measured at cost.

The cost of the property, plant and equipment 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%
International waters.....	5%
Common items.....	10-20%

Notes to financial statements

2. Summary of Significant Accounting Policies (continued)

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 company 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.

Accounts receivable

Accounts receivable 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 Company 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 Company's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives.

Notes to financial statements

2. Summary of Significant Accounting Policies (continued)

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:

	2006	2005
Lease of bandwidth - Farice 1	6.850.092	6.557.616
Other income	107.508	100.006
	<u>6.957.600</u>	<u>6.657.622</u>

4. Geographical segments

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

Segment information

	Faroe Islands Branch	Iceland Branch	Farice hf.
Operating revenue.....	1.425.104	5.532.496	6.957.600
Operating expenses	(453.487)	(1.595.978)	(2.049.465)
Administrative expenses.....	(197.581)	(717.175)	(914.755)
Depreciation.....	(532.009)	(2.529.992)	(3.062.001)
	<u>(1.183.076)</u>	<u>(4.843.145)</u>	<u>(6.026.221)</u>
Operating profit (loss).....	242.028	689.351	931.379
Net interest expence/income.....	(258.560)	(1.062.448)	(1.321.008)
Income tax.....	3.307	67.157	70.464
Net loss.....	<u>(13.226)</u>	<u>(305.939)</u>	<u>(319.165)</u>

Notes to financial statements

5. Salaries

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

	2006	2005
Salaries.....	148.057	198.144
Salary-related expenses.....	45.236	56.995
	<u>193.293</u>	<u>255.139</u>
Average number of positions.....	1,75	1,90

6. Financial income / (expenses)

	2006	2005
Income from investments:		
Other interest income.....	71.556	76.326
Finance costs:		
Other interest expenses.....	(1.434.090)	(1.449.008)
Exchange rate differences.....	41.526	26.970
	<u>(1.392.564)</u>	<u>(1.422.038)</u>
	<u>(1.321.008)</u>	<u>(1.345.713)</u>

7. Earnings per share

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

	2006	2005
Net profit (loss) for the year.....	(319.165)	(432.717)
Total average number of shares including potential shares	13.689.662	13.689.662
Basic Earnings (loss) per Share	(0,02)	(0,03)

Notes to financial statements

8. Property, plant and equipment

	Point of presence	Backhaul	Cable stations	International Waters	Common Items
Cost					
At January 1, 2006.....	247.517	4.181.651	993.609	34.544.546	4.406.959
Additions.....	2.160	1.529.253	0	0	0
At December 31, 2006.....	249.677	5.710.904	993.609	34.544.546	4.406.959
Accumulated depreciation					
At January 1, 2006.....	44.554	664.926	178.090	3.454.397	1.662.327
Charge for the year.....	22.454	505.051	89.425	1.727.227	717.844
At December 31, 2006.....	67.008	1.169.977	267.515	5.181.624	2.380.171
Carrying Amount					
At December 31, 2006.....	182.669	4.540.927	726.094	29.362.922	2.026.788
At January 1, 2006.....	202.963	3.516.725	815.519	31.090.149	2.744.632

8. Property, plant and equipment by location

	Icelandic Branch Iceland	Icelandic Branch Scotland	Foreyja Branch	International Waters	Common Items
Cost					
At January 1, 2006.....	212.876	4.462.355	747.547	34.544.546	4.406.959
Additions.....	0	1.225.130	306.283	0	0
At December 31, 2006.....	212.876	5.687.485	1.053.830	34.544.546	4.406.959
Accumulated depreciation					
At January 1, 2006.....	29.318	723.694	134.558	3.454.397	1.662.327
Charge for the year.....	19.159	502.961	94.810	1.727.227	717.844
At December 31, 2006.....	48.477	1.226.655	229.368	5.181.624	2.380.171
Carrying Amount					
At December 31, 2006.....	164.398	4.460.830	824.462	29.362.922	2.026.788
At January 1, 2006.....	183.558	3.738.661	612.989	31.090.149	2.744.632

9. Other financial assets

Accounts receivable:

	31.12.2006	31.12.2005
Nominal value.....	195.662	227.241

Bank balances and cash:

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

Notes to financial statements

10. Share capital

Common stock is as follows:

	Shares	Ratio	Nominal value
Total share capital at year-end.....	13.689.662	100,0%	13.689.662
	<u>13.689.662</u>	<u>100,0%</u>	<u>13.689.662</u>

Each share of one euro carries one vote.

11. Loss carry-forward

	Loss carry-forward
Balance at January 1, 2005.....	(2.299.066)
Net loss for the year.....	(319.165)
Balance at December 31, 2006.....	<u>(2.618.231)</u>

12. Loans from credit institutions

	Remaining balances 31.12.2006
Loans in EUR	27.166.667
Current maturities.....	2.200.000
Loans from credit institutions.....	<u>29.366.667</u>
Aggregated annual maturities are as follows:	
Current maturities.....	2.200.000
Installments 2008.....	2.200.000
Installments 2009.....	1.466.667
Installments 2010.....	5.640.000
Installments 2011.....	5.640.000
Installments later.....	12.220.000
	<u>29.366.667</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.

Notes to financial statements

13. Derivative financial instruments

Interest Rate Swaps

The Company 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 rate at 0,59 per cent plus LIBOR and the differences amounts to swap rates.

14. Deferred tax

	Deferred tax asset	Deferred tax liabilities	Total
At January 1, 2006.....	409.570	0	409.570
Calculated tax for the year.....	70.464	0	70.464
At December 31, 2006.....	<u>480.034</u>	<u>0</u>	<u>480.034</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.....	(1.369.771)
Loss carry-forward.....	1.849.806
	<u>480.034</u>

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

	Tax loss	Deferred tax
Available for 6 years	33.564	6.041
Available for 7 years	2.401.965	471.427
Available for 8 years	3.677.167	705.086
Available for 9 years	2.728.505	531.429
Available for 10 years	754.569	135.822
	<u>9.595.770</u>	<u>1.849.806</u>

15. Approval of financial statements

The Financial Statements were approved by the Board of Directors and authorised for issue on March 27, 2007.