Condensed Consolidated Interim Financial Statements

1 January to 31 March 2019

Síminn hf.
Ármúla 25
108 Reykjavík
Kt. 460207-0880

Contents

Endorsement and Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Síminn hf. and its subsidiaries (together referred to as "Síminn" or the "Group") for the period 1 January to 31 March 2019 are prepared and presented in accordance with International Financial Reporting Standards (IFRS) for Interim Financial Statements (IAS 34) as adopted by the EU. The Company has made a change in accounting policy for TV rights. See note 3.

The total sales for Síminn hf. the first three months of the year amounted to ISK 6.962 million according to the Consolidated Income Statement, compared to ISK 6.874 million for the same period 2018. Net profit for the first three months of the year 2019 amounted to ISK 615 million, compared to profit of ISK 887 million for the same period 2018. Total assets as at 31 March 2019 amounted to ISK 64.603 million and total equity amounted to ISK 35.817 million according to the Statement of Financial Position. The Company's equity ratio was 55,4%.

The Annual General Meeting of Síminn approved on 21 March 2019 a share buyback program. The share buyback program starts in the second quarter of this year and allows buyback up to ISK 1.310 million

Statement by the Board of Directors and the CEO

According to the best of our knowledge the Condensed Consolidated Interim Financial Statements of Síminn hf. are prepared and presented in accordance with International Financial Reporting Standards (IFRS) for Interim Financial Statements (IAS 34) as adopted by the EU. It is our opinion that these Condensed Consolidated Interim Financial Statements give a true and fair view of the consolidated financial performance of Síminn hf. for the three months ended 31 March 2019, its assets, liabilities and consolidated financial position as at 31 March 2019 and its consolidated cash flows for the three month period ended 31 March 2019. Further, in our opinion the Condensed Consolidated Interim Financial Statements give a fair view of the development and performance of Siminn's operations and its position and describes the principal risks and uncertainties faced by Síminn hf.

The Board of Directors and the CEO have today discussed the Condensed Consolidated Interim Financial Statements of Síminn hf. for the period 1 January to 31 March 2019 and confirm them by means of their signatures.

Reykjavík, 30 April 2019

Board of Directors

Bertrand B. Kan, Chairman

Helga Valfells, vice chairman

Bjarni Þorvarðarson

Ksenia Nekrasova

Sylvía Kristín Ólafsdóttir

CEO

Orri Hauksson

Consolidated Income Statement and other comprehensive income for the period 1 January to 31 March 2019

	Notes	2019 1.1.-31.3.	2018 1.1.-31.3.
Net sales	5	6.773	6.756
Cost of sales	6	(3.425)	(3.302)
Gross profit		3.348	3.454
Other operating income		189	118
Operating expenses	7	(2.430)	(2.275)
Operating profit		1.107	1.297
Finance income		50	52
Finance cost		(356)	(241)
Net exchange rate differences		(7)	7
Net financial items	8	(313)	(182)
Profit before tax		794	1.115
Income tax		(179)	(228)
Profit for the period		615	887
Total comprehensive income for the period		615	887
EBITDA*		2.369	2.404

Earnings per share

Basic earnings per share		0,07	0,10

*Restated, see in Note 3.

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Consolidated Statement of Financial Posititon as at 31 March 2019

	Notes	31.3.2019	31.12.2018 Restated*
Assets			
Non-current assets			
Property, plant and equipment		23.633	18.059
Intangible assets		32.418	32.473
Other financial assets	9	463	424
Non-current assets		56.514	50.956
Current assets			
Inventories	10	1.662	1.437
Accounts receivables	11	3.493	4.313
Other assets	12	1.968	882
Cash and cash equivalents		966	1.246
Current assets		8.089	7.878
Total assets		64.603	58.834
Equity			
Share capital		9.033	9.033
Reserves		15.552	15.552
Other statutory reserve		154	154
Other reserve		457	456
Retained earnings		10.621	10.007
Total equity		35.817	35.202
Liabilities			
Non-current liabilities			
Borrowings		15.333	15.631
Finance leases	3	4.936	0
Deferred tax liabilities	13	839	898
Non-current liabilities		21.108	16.529
Current liabilities			
Bank loans		0	450
Accounts payables		2.726	2.997
Current maturities of borrowings		1.150	1.150
Current maturities of finance leases		546	0
Taxes to be paid		915	766
Other liabilities	14	2.341	1.740
Current liabilities		7.678	7.103
Total liabilities		28.786	23.632
Total equity and liabilities		64.603	58.834

*Restated, see in Note 3.

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Consolidated Statement of Changes in Equity 1 January to 31 March 2019

	Share capital	Reserves	Other statutory reserve	Translation- and other reserve	Retained earnings	Total equity
Total equity 1.1.2018	9.247	16.406	201	1.041	9.386	36.281
Net profit for the period				171	716	887
Other changes				(2)	2	0
Share option charge for the period			6			6
Total equity 31.3.2018	9.247	16.406	207	1.210	10.104	37.174
Total equity 1.1.2019	9.033	15.552	154	456	10.007	35.202
Net Profit for the period					615	615
Other changes				1	(1)	0
Total equity 31.3.2019	9.033	15.552	154	457	10.621	35.817

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Consolidated Statement of Cash Flow 1 January to 31 March 2019

	Notes	2019 1.1.-31.3.	2018 1.1.-31.3. Restated*
Cash flow from operating activities			
Operating profit		1.107	1.297
Operational items not affecting cash flow:			
Depreciation		1.262	1.107
Other items not affecting cash flow		0	6
		2.369	2.410
Changes in current assets and liabilitites:			
Changes in inventories		(176)	(175)
Changes in operating assets		(398)	367
Changes in operating Liabilities		267	(212)
Changes in current assets and liabilitites		(307)	(20)
Cash generated by operation		2.062	2.390
Interest income received		47	55
Interest expenses paid		(310)	(246)
Payments of taxes		(88)	(156)
Net cash from operating activities		1.711	2.043
Investing activities			
Investment in property, plant and equipment		(998)	(1.073)
Investment in intangible assets		(180)	(110)
Proceeds from sale of property, plant and equipment		1	1
Changes in other investment		28	28
Changes in other investment		2	0
Investment activities		(1.147)	(1.154)
Financing activities			
Payments of non-current liabilities		(287)	(287)
Payment of long term lease		(131)	0
Bank loans, increase		(450)	(500)
Financing activities		(868)	(787)
Increase (decrease) in cash and cash equivalents		(304)	102
Effect of exchange rate fluctuations on cash held		24	(15)
Cash and cash equivalents at the beginning of the period		1.246	718
Cash and cash equivalents at the end of the period		966	805

*Restated, see in Note 3.

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Notes to the Consolidated Financial Statements

1. Reporting entity

Síminn hf. (the "Company") is a public limited liability company domiciled in Iceland. The address of the Company's registered office is Ármúli 25, Reykjavík. The condensed consolidated interim financial statements as at and for the three months ended 31 March 2019 comprise the Company and its subsidiaries (together referred to as "Síminn" or the "Group") and Síminn's interest in associated companies. The Company is listed on Nasdaq OMX Iceland.

2. Basis of accounting

Statement of compliance

These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2018. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

The Group's last annual consolidated financial statements is available on the company's website, www.siminn.is, and in the company news release distribution network of Nasdaq Nordic: www.nasdaqomxnordic.com.

This is the first set of the Group's financial statements in which IFRS 16 has been applied. Changes to significant accounting policies are described in note 3.

These interim financial statements were approved and authorised for issue by the Company's Board of Directors on 30 April 2019.

Basis of measurement

These interim financial statements have been prepared on the historical cost basis.

Presentation and functional currency

These interim financial statements are presented in Icelandic Krona (ISK), which is the Company's functional currency. All financial information presented in ISK has been rounded tho the nearest million.

Use of judgements and estimates

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

3. Changes in accounting policies

The accounting policies applied in the consolidated financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2018, except for the new significant judgements related to lessee accounting under IFRS 16.

The Group has initially applied IFRS 16 effective from 1 January 2019. The Group also changed it's accounting method for TV rights. Previously, TV rights were accounted for as inventories under IAS 2 and expensed as material expense. Due to major changes in the TV business environment and in the Group's business model in recent years the Group's TV rights have been recognised as of 1 January 2019 as an intangible asset in accordance with IAS 38. The Group recognises a depreciation charge for TV rights.

IFRS 16 Leases

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, with right-of-use assets equal to lease liability at 1. January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

3. Changes in accounting policies, contd.:

Leases in which the Group is a lessee

The Group has recognisee new assets and liabilities for its leases of buildings, cars and fiber optics. The nature of expenses related to those leases has changed because the Group recognises a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the epxense recognised.

The Group presents right-of-use assets in 'property, plant and equipment', the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below.

	Telecom equipment	Buildings	Other equipment	Total
Balance at 1.1.2019	156	5.350	61	5.567
Balance at 31.3.2019	154	5.216	67	5.437

The Group presents lease liabilities in non-current liabilities in the statement of financial position.

Leases in which the Group is a lessor

No impact is expected for other leases in which the Group is a lessor.

Impacts for the period

As a result of initially applying IFRS 16, the Group recognised ISK 5.437 million of right-of-use assets and ISK 5.482 million of lease liabilities as at 31 March 2019.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the three months ended 31 March 2019, the Group recognised ISK 166 million of depreciation charges and ISK 69 million of interest costs from these leases. Payment of lease liability was ISK 131 million.

TV rights, a change in accounting policy

The Company's TV right is now presented as an intangible asset in Non-current assets but were previosly presented as inventories in Current assets. Because of that change the comparative information 31.12.2018 is restated. ISK 763 million are now presented as intangible asset but were previously presented as inventories and ISK 150 million are now presented in prepayments but wer previously presented as inventories.

Also in relation to this change, the comparative information for cost of sales for the three montsh ended 31 March 2018. Cost of service sold, i.e. material cost, is decreased by ISK 173 million and depreciation increases by the same amount. See note 6.

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4. Operating segments

An overview of operating segments is set forward in same manner as regular reporting to the Board of Directors.

The Company operates within seven segments that sell services and equipment in different markets. The operating segments are as follows:

Operating segment:	**Description:**
Mobile:	Revenue from mobile services in Iceland and abroad, whether traditional GSM service, satellite service, wholesale mobile service or other mobile service.
Fixed voice:	Revenue from fixed voice service,fees and traffic.
Internet & network:	Revenue from data service, incl. xDSL service, GPON, Internet, IP net, core network, local loop and access network.
TV:	Revenues form TV broadcast (fees, traffic and advertisement), TV distribution and Síminn TV.
IT services:	Revenue from hosting and operations, advisor fees, sold service and IT related hardware sales.
Equipment sales:	Revenue from sale of telco equipment.
Other revenue:	Revenue from i.e. sold telco service and hosting.

Operating segments 1.1.-31.3. 2019

	Mobile	Fixed voice	Internet & network	TV	IT services	Equipment sales	Other revenues	Total
Revenue	1.357	465	2.135	1.331	951	425	298	6.962

Expenses	(4.593)
EBITDA	2.369
Depreciation and amortisation	(1.262)
Net finance cost	(313)
Taxes	(179)
Net earnings for the period	615
Capital additions	(1.177)
Assets	64.603
Liabilities	28.786

Operating segments 1.1.-31.3. 2018

	Mobile	Fixed voice	Internet & network	TV	IT services	Equipment sales	Other revenues	Total
Revenue	1.541	498	2.260	1.167	702	427	279	6.874

Expenses	(4.470)
EBITDA	2.404
Depreciation	(1.107)
Net finance cost	(182)
Share of earnings of associated companies	0
Taxes	(228)
Net earnings for the period	887
Capital additions	(1.182)
Assets	60.554
Liabilities	23.380

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Notes to the Consolidated Financial Statements

5. Net sales

Sales of service and goods is specified as follows:	2019 1.1.-31.3.	2018 1.1.-31.3.
Sales of service	5.846	6.036
Sales of goods from IT services and telecom	927	720
	6.773	6.756

No customer comprises more than 10% of net sales

6. Cost of sales

Cost of sales is specified as follows:

Salaries and related expenses	870	865
Cost of service sold	873	887
Interconnecting fees	169	198
Cost of goods sold	820	607
Capitalised work	(218)	(191)
Depreciation cost of sold services	911	936
	3.425	3.302

Cost of service sold consists of; material costs, service contracts, license fees, purchased services and telecommunications costs.

7. Operating expenses

Operating expenses is specified as follows:

Salaries and related expenses	1.187	1.144
Sales and marketing expenses	131	130
Housing and transportation expenses	182	359
IT-Expenses	231	257
General and administrative expenses	348	214
Depreciation operating expenses	351	171
	2.430	2.275

8. Financial income and expense

Financial income and finance costs are specified as follow:

Finance income		
Interest income	46	50
Dividend received	4	2
	50	52
Finance expense		
Interest on borrowings	(231)	(237)
Interest expense from lease liability	(69)	0
Other finance expenses	(56)	(4)
	(356)	(241)
Net exchange rate differences	(7)	7
Net financial items	(313)	(182)

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Notes to the Consolidated Financial Statements

9. Other financial assets

Other financial assets are specified as follows:

	31.3.2019	31.12.2018
Investment in other companies	47	46
TV programs for screening	100	149
Prepaid expense	121	15
Non-current reveivables	195	214
Other financial assets total	463	424

10. Inventories

Inventories are specified as follows:

Finished goods	1.263	1.333
TV programs for screening	399	104
Inventory total	1.662	1.437

11. Accounts Receivables

Accounts receivables are specified as follows:

Accounts receivables	3.682	4.508
Allowances for doubtful accounts	(189)	(195)
Accounts receivables total	3.493	4.313

12. Other assets

Other assets are specified as follows:

Prepayments and accrued income	1.840	767
Other current assets	128	115
Other assets total	1.968	882

13. Deferred tax

Analysis of movements in the net deferred tax balances during the period is as follows:

Deferred tax at the beginning of the year	898	817
Income tax posted to the income statement	174	825
Taxes to be paid	(233)	(744)
Deferred tax liability at the end of the period	839	898

14. Other liabilities

Other liabilities are specified as follows:

Accrued expenses	992	836
Salaries and related expenses	627	330
VAT	709	562
Other	13	12
Other liabilities total	2.341	1.740

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15. Legal proceedings

The Company is currently involved in several legal disputes that relate to Competition, Media and Telecommunication Act. Sýn hf. (Vodafone) has sued Síminn for damages due to alleged margin squeeze. The amount of the claim is around 900 million ISK. Inter, an association of ISP, sent the Company a letter in 2015 claiming damages in the amount of three billion ISK due to alleged infringement of the Competition Act. Three companies within the association have requested the appointment of a court appointed assessor to estimate the alleged damages. They also changed the claimed damages to 300 million ISK. TSC ehf. has sued Síminn for damages in the amount of one hundred million ISK plus costs and interest due to alleged infringement of the Competition Authority's decision no 10/2005. The District Court of Reykjavík has concluded that Síminn should pay ISK 50 million plus costs and interest. Síminn has rejected the claims in all cases and countersued Vodafone. In the case of Vodafone against Síminn and Síminn's countersue against Vodafone, the District Court acquitted both companies. The case will be appealed to National Court. Síminn also appealed the District Court ruling in the case of TSC ehf. to National Court.

Síminn and Vodafone have been in a dispute regarding distribution of media content. The Competition Authority and Post- and Telecommunication Authority ruled that Síminn breached against media act no. 10/2018 and fined Síminn. The fine, 9 million ISK has already been payed. The Company believes that its actions are fully compliant with the relevant Acts and will appeal. Subsequently Vodafone has filed a claim against Síminn for compensation of 1.9 billion ISK. Síminn rejected the claim and pointed out that in Vodafone claim there are no arguments for compensation, nor an attempt to prove the alleged loss. Síminn believes there is no base for the claim from Vodafone. Gagnaveita Reykjavíkur has filed a claim against Síminn of 1.3 billion ISK. Síminn has rejected the claim and has pointed out that in the claim there are no arguments to conclude that conditions for liability damages existed. Síminn believes there is no base for the claim.

In December 2015 the District Commissioner of the Capital Area approved Síminn's request to impose an injunction against Vodafone due to the distribution of non-liner media content. Síminn consequently initiated a confirmation procedure before the District Court of Reykjavík. The District Court approved the Company's request in April 2017. Vodafone appealed to the Supreme Court of Iceland which on 18 October 2018 confirmed the District Court ruling. The Supreme Court ruled that Síminn had sufficiently demonstrated that financial damage could have been attributed to Vodafone's conduct. Síminn has sued Vodafone for the District Court of Reykjavík and made a claim of 555 million ISK.

Despite the uncertain nature of the outcome of these cases, it is the management opinion that the cases will not result in substantial financial cost. In those cases where the Company might be forced to pay damages, the cost is estimated by the management and recognised in the financial statement.

16. Subsequent event

There are no subsequent events to report.

Quarterly Statements

	1 F 2018	2 F 2018	3 F 2018	4 F 2018	1 F 2019
Net sales	6.756	6.921	6.828	7.420	6.773
Cost of sales	(3.302)	(3.610)	(3.371)	(4.196)	(3.425)
Gross profit	3.454	3.311	3.457	3.224	3.348
Other operating income	118	232	141	124	189
Operating expenses	(2.275)	(2.280)	(2.156)	(2.443)	(2.430)
Impairment losses	0	0	0	(2.990)	0
Operating profit (loss)	1.297	1.263	1.442	(2.085)	1.107
Net financial items	(182)	(190)	(211)	(205)	(313)
Profit (loss) before tax	1.115	1.073	1.231	(2.290)	794
Income tax	(228)	(220)	(253)	(146)	(179)
Profit (loss) for the period	887	853	978	(2.436)	615
EBITDA*	2.404	2.386	2.607	2.124	2.369

*Restated, see in Note 3.

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