Consolidated Financial Statements

for the year ended 31 December 2020

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

Contents

Endorsement and Statement by the Board of Directors and the CEO

Síminn is a leader in the Icelandic telecommunication market and provides customers with a comprehensive range of products in the field of communications, entertainment and information technology, whether for individuals or companies. In its 115 year history, the Company has built one of the most powerful and secure telecommunication network in the world, both in mobile and fixed line systems. Síminn's position is strong in the telecommunication market and in recent years there has been strong revenue growth in information technology and entertainment.

The financial statements comprise the consolidated financial statements of Síminn hf (the Company) and its subsidiaries, as listed in note 15, for the year 2020.

Operations in the year 2020

Net profit for the year 2020 amounted to ISK 2.916 million, compared to profit of ISK 3.070 million for 2019. Total sales for Síminn hf. for the year amounted to ISK 29.939 million according to the Consolidated Income Statement, compared to ISK 29.071 million for 2019. Revenue growth for the year is mainly due to growth in television services and information technology. Margin decreases between years, which is mainly due to the effect of a weaker exchange rate and fines. Total operating expenses amounted to ISK 25.553 million, compared to ISK 24.157 million in 2019. The reduction in financing cost due to lower interest rates largely offsets the effect of lower margins. Total assets as at 31 December 2020 amounted to ISK 65.206 million and total equity amounted to ISK 37.298 million according to the Statement of Financial Position. The Company's equity ratio was 57,2%. The Company's long-term liabilities amounted to ISK 20.025 million at the end of the year and decrease by ISK 243 million between years. The Company pays monthly installments on a bank loan, but used authorization in the loan agreement to postpone a total of 10 due dates in 2020. The authorization was used in light of the fact that net debt is below the target for leverage.

Due to the Competition Authority's decision on 28 May, the Company expensed ISK 500 million in the second quarter of the year. That decision from the Competition Authority led to a reduction in the Company's EBITDA forecast for 2020, as announced to the Icelandic Stock Exchange on May 28. Síminn appealed the ruling to the Competition Appeals Committee, which published its decision on 13 January 2021, where the committee partially overturned ruling 25/2020 and reduced the Company's fine by ISK 300 million. Síminn subsequently sent out another announcement to the Icelandic Stock Exchange that the Company's performance would increase from the announcement sent out at the end of May. The Company's operations are otherwise in accordance with the original plans.

Síminn hf. and Crayon Group AS signed a binding agreement for the sale of Síminn's subsidiary Sensa ehf. on 2 December to Crayon. It is estimated that the transaction will take place in the first half of 2021, provided that certain conditions are met, incl. approval of the Competition Authority. Following the transaction, Síminn and Crayon will have an extensive collaboration that strengthens Síminn's product range in the corporate market.

At Míla, the number of active fiber-optic connections increased by 8,000 during the year, and at the end of the year, about 35,000 households now have an active fiber-optic connection. About 95,000 homes in the country now have access to fiber optics from Míla. As of 1 January 2021, assets and operations related to mobile phone radio network and IP operations will be transferred from Síminn to Míla.

The impact of the COVID-19 pandemic on the Group's operations, financial position and cash flow in the year is negligible. Demand for the Group's core products has remained strong, but if the recession will last long in the economy, it is unclear what the impact will be. The impact of COVID can be seen in the decline in roaming mobile revenue, which amounted to almost ISK 400 million between the years 2019 and 2020. The importance of roaming income has decreased sharply in recent years due to regulatory changes. On the other hand, various staff costs have shrunk, which is explained by employees' work from home and a sharp decline in foreign travel costs. In some cases, COVID had a positive effect on operations, which was reflected in a temporary increase in projects at the subsidiary Sensa.

The Annual General Meeting of Síminn approved on 12 March 2020 a share capital reduction to cancel own shares. The reduction amounted to ISK 500 million of nominal value. The same General meeting approved a share buyback program allowing buyback up to ISK 875 million of nominal value. In accordance with the Annual General Meeting approval, the Company has purchased own shares nominal value ISK 267 million, for ISK 1.751 million. The Company paid ISK 500 million in dividend to it's shareholders.

Regarding the main risk and uncertainty factors, see Note 26.

Endorsement and Statement by the Board of Directors and the CEO

Share capital and articles of association

The number of shareholders at year end 2020 was 873, in the beginning of the year they were 1,027. At year end 2020 the ten largest shareholders were:

	Shares in ISK million	Shares in %
Stoðir hf.	1.300	14,86%
Lífeyrissjóður verslunarmanna	1.120	12,80%
Gildi - lífeyrissjóður	794	9,07%
Lífeyrissj.starfsm.rík. A-deild	765	8,74%
Stapi lífeyrissjóður	396	4,53%
Birta lífeyrissjóður	349	3,99%
Brú Lífeyrissjóður starfs sveit	281	3,21%
Söfnunarsjóður lífeyrisréttinda	278	3,18%
Frjálsi lífeyrissjóðurinn	218	2,49%
Íslandsbanki hf.	218	2,49%
	5.719	65,36%

At the Company's Annual General Meeting held on March 12, 2020, it was agreed to authorize the Board of Directors to purchase up to 10% of the nominal value of the Company's shares, cf. VIII. section of Act no. 2/1995 on Public Limited Companies. The authorization is valid for up to eighteen months. With the approval of this proposal, the same authorization approved at the Company's Annual General Meeting on March 21, 2019, expired.

The Board of Directors proposes a dividend payment to shareholders in 2021 of ISK 500 million. The Board proposes a share capital reduction to cancel own shares of nominal value ISK 267 million plus purchases until 12 February 2021, a total of ISK 316 million nominal value. The Board also proposes authorization to buy up to 10% of issued shares. The Company's board also proposes a reduction in the Company's share capital to a nominal value of ISK 894 million with a payment to shareholders for the amount of 8.000 million. This is done to ensure a more efficient capital structure for the Company following the refinancing of Síminn and Míla as well as the sale of Sensa.

The Company's share capital amounts to ISK 8.750 million, of which the Company ownes ISK 267 million. Shareholders are entitled to one vote per share of one ISK.

Corporate Governance

The Board of Directors is focused on practicing good Corporate Governance and that it consists with the Icelandic Corporate Governance guidelines, issued by the Iceland Chamber of Commerce, Nasdag OMX Iceland and the Confederations of Icelandic Employers. The Board of Directors has prepared Corporate Governance Statement in compliance the Icelandic Corporate Governance guidelines which are described in full in the Corporate Statement in the consolidated financial statements.

The Board of Directors of Siminn has three men and two women and the company fulfills the provisions of the Act on the Gender Role of the Board of Directors. Sylvía Kristín Ólafsdóttir resigned from the Company's board in January due to changes in her own field of work. The company's executive committee consists of four men (80%) and one woman (20%).

Further information on corporate governance is provided in the Corporate Governance Statement section, which is annexed to the Annual Accounts.

Non-Financial Reporting

Non-financial information which are relevant and useful to assess the Company's policies regarding environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues are further discussed in the Non-Financial Reporting in the consolidated financial statements.

Endorsement and Statement by the Board of Directors and the CEO

Statement by the Board of Directors and the CEO

According to the best of our knowledge the Consolidated Financial Statements of Síminn hf. are prepared and presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. It is our opinion that these Consolidated Financial Statements give a true and fair view of the consolidated financial performance of Síminn hf. for the year 2020, its assets, liabilities and consolidated financial position as at 31 December 2020 and its consolidated cash flows for the year 2020. Further, in our opinion the Consolidated 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 Consolidated Financial Statements of Síminn hf. for the year 2020 and confirm them by means of their signatures.

Reykjavík, 18 Februar 2021.

Board of Directors

Jón Sigurðsson, Chairman

Helga Valfells

Bjarni Þorvarðarson

Kolbeinn Árnason

CEO

Orri Hauksson

Independent Auditor's Report

To the Board of Directors and Shareholders of Síminn hf.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Síminn hf. ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional disclosure requirements for listed companies in Iceland.

Our opinion is consistent with the additional report submitted to the Audit Committee and the Board of Directors.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of financial statements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We declare, to the best of our knowledge and belief, that we have not provided any prohibited non-audit services, as referred to in Article 5(1) of the Regulation (EU) 537/2014 and that we remained independent in conducting the audit.

We were first appointed as auditors by the Annual General Meeting on 15 April 2016. We have been re-appointed by resolutions passed by the annual general meeting uninterrupted since then.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the matter was addressed in the audit

Evaluation of goodwill

At year-end 2020, the Group's goodwill amounted to ISK 28,5 million and is the single largest asset of the Company. Goodwill has been allocated between the relevant cash generating units. Goodwill must be tested annually for impairment and also other assets which are not amortized and have an undefined useful life.

Assessment of value of goodwill is one of key audit matters in audit of the Group’s consolidated financial statements due to how large proportion goodwill is of its total assets and that this asset is subject to evaluation by management. Assessment of value of goodwill is based on management’s expectations relating to present value of future cash flows of cash generating units.

Information on impairment test performed on the Group's goodwill at year-end is in note 14 and information on significant accounting policies is in note 32.3.

We in cooperation with our valuation specialists evaluated the key assumptions used by management in calculating value of goodwill in each cash generating unit. The audit work included among other things:

• Key assumptions for projected cash flows and operating plans for the next 5 years were evaluated. This work included an evaluation of key assumptions regarding income, operating expenses, contribution margin and investments for the projected period.
• Deviations from prior years' budgets are considered, among other procedures, in our assessment of the projected cash flows and operating plans.
• Key assumptions regarding projected future growth following the projected period were evaluated.
• The calculation model was tested and its functionality evaluated.
• Key assumptions regarding cost of capital (WACC) for each cash generating unit were reviewed and evaluated. WACC was compared to the Group's finance expenses and other market related assumptions.
• We observed the notes to the financial statements and verified that information required in accounting policies were included.

Key Audit Matters	How the matter was addressed in the audit

Revenue recognition

The Group´s revenue recognition systems are complicated and process a large number of transactions in many systems. The main revenues are from mobile and fixed voice, internet and network, IT services and equipment sales. Revenue recognition of the Group is explained in note 32.4.

Revenue recognition is one of key audit matters in the audit of the Group’s consolidated financial statements due to the large number of transactions and complicated recognition in the revenue recognition system where supply and price of goods and services changes on a regular basis.

Our audit procedures aimed at evaluating the design, implementation and functionality of automatic controls relating to revenue recognition and by performing relevant substantive audit testing in order to verify the completeness and accuracy in the Group’s revenue recognition and that revenue is recognised in the appropriate period. This audit work included among other things:

• The computer and information systems used for revenue recognition were evaluated and the flow between revenue systems and finance system. Furthermore, tests were performed on the specific automatic controls embedded in the process.
• Examination of employee access authorisation in the financial systems.
• Examination of controls in invoicing which are designed to ensure validity and accuracy of issued invoices.
• Analytical tools were utilised in testing sales transactions in order to detect unusual transaction for further examination.

Independent Auditor's Report, cont.

Other information in the annual report

The Board of Directors and CEO are responsible for other information. Other information comprises the the annual report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read other information in the annual report when it is available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. The annual report is not available at our reporting date but is expected to be made available to us prior to its publication.

Responsibilities of the Board of Directors and CEO for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union and additional disclosure requirements for listed companies in Iceland, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and CEO are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and CEO are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor’s Report, cont.

- Conclude on the appropriateness of the Board and CEO's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors and audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statements Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the consolidated financial statements includes the information required by the Financial Statements Act if not disclosed elsewhere in the consolidated financial statements.

The engagement partner on the audit resulting in this independent auditor’s report is Árni Claessen.

Reykjavik, 18 February 2021

KPMG ehf.

Consolidated Income Statement for the year 2020

	Notes	2020	2019
Net sales	5	29.396	28.309
Cost of sales	6	(16.492)	(14.906)
Gross profit		12.904	13.403
Other operating income		543	762
Operating expenses	7	(9.061)	(9.251)
Operating profit		4.386	4.914
Finance income		195	196
Finance cost		(843)	(1.227)
Net exchange rate differences		(54)	(14)
Net financial items	9	(702)	(1.045)
Profit before tax		3.684	3.869
Income tax	10	(768)	(799)
Profit for the year		2.916	3.070
EBITDA	4	10.500	10.516

Earnings per share

Basic earnings per share	11	0,34	0,34
Diluted earnings per share	11	0,34	0,34

The notes on pages 13 to 25 are an integral part of these consolidated financial statements

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Consolidated Statement of Financial Posititon as at 31 December 2020

	Notes	31.12.2020	31.12.2019
Assets			
Non-current assets			
Property, plant and equipment	12	18.991	18.716
Right-of-use assets	13	5.378	5.118
Intangible assets	14	32.544	34.265
Other financial assets	16	544	472
Non-current assets		57.457	58.571
Current assets			
Inventories	17	1.127	1.751
Accounts receivables	18	3.147	4.188
Other assets	19	834	794
Cash and cash equivalents		735	217
Assets held for sale	20	1.906	0
Current assets		7.749	6.950
Total assets		65.206	65.521
Equity			
Share capital		8.483	8.750
Reserves		13.041	14.525
Other statutory reserve		154	154
Other reserve		674	456
Retained earnings		14.946	12.747
Equity	21	37.298	36.632
Liabilities			
Non-current liabilities			
Borrowings	22	14.289	14.481
Lease liabilities	23	5.066	4.632
Payables		0	353
Deferred tax liabilities	24	670	802
Non-current liabilities		20.025	20.268
Current liabilities			
Bank loans		500	600
Accounts payables		2.554	3.533
Current maturities of borrowings	22	1.150	1.150
Current maturities of lease liabilities	23	513	600
Taxes to be paid		850	894
Other liabilities	25	1.540	1.844
Liabilities held for sale	20	776	0
Current liabilities		7.883	8.621
Total liabilities		27.908	28.889
Total equity and liabilities		65.206	65.521

The notes on pages 13 to 25 are an integral part of these consolidated financial statements

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Consolidated Statement of Changes in Equity for the year 2020

	Share capital	Reserves	Other statutory reserve	Trans-lation and other reserve	Retained earnings	Total equity
Total equity 1.1.2019	9.033	15.552	154	456	10.007	35.202
Net profit for the year					3.070	3.070
Payment of dividends (0,0365434 per share)					(330)	(330)
Buyback of ordinary shares	(283)	(1.027)				(1.310)
Total equity 31.12.2019	8.750	14.525	154	456	12.747	36.632
Total equity 1.1.2020	8.750	14.525	154	456	12.747	36.632
Net Profit for the year					2.916	2.916
Translation difference on foreign operation				1		1
Payment of dividends (0,057144 per share)					(500)	(500)
Buyback of ordinary shares	(267)	(1.484)				(1.751)
Other changes				217	(217)	0
Total equity 31.12.2020	8.483	13.041	154	674	14.946	37.298

The notes on pages 13 to 25 are an integral part of these consolidated financial statements

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Consolidated Statement of Cash Flow for the year 2020

	Notes	2020	2019
Cash flow from operating activities			
Operating profit		4.386	4.914
Operational items not affecting cash flow:			
Depreciation	12-14	6.114	5.602
Gain on sale of fixed assets		(20)	(170)
		10.480	10.346
Changes in current assets and liabilitites:			
Changes in inventories		547	(312)
Changes in operating assets		589	187
Changes in operating Liabilities		(371)	44
Changes in current assets and liabilitites		765	(81)
Cash generated by operation		11.245	10.265
Interest income received		195	195
Interest expenses paid		(898)	(1.187)
Payments of taxes		(889)	(766)
Net cash from operating activities		9.653	8.507
Investing activities			
Investment in property, plant and equipment	12	(3.940)	(4.200)
Investment in intangible assets	14	(1.837)	(2.366)
Proceeds from sale of property, plant and equipment		34	233
Changes in other investment		(192)	(38)
Changes in other investment		(51)	2
Investment activities		(5.986)	(6.369)
Financing activities			
Dividend paid		(500)	(330)
Buyback of ordinary shares	21	(1.751)	(1.310)
Payments of non-current liabilities	22	(192)	(1.150)
Payment of long term lease	23	(587)	(552)
Bank loans, increase		(100)	150
Financing activities		(3.130)	(3.192)
Increase (decrease) in cash and cash equivalents		537	(1.054)
Effect of exchange rate fluctuations on cash held		(19)	25
Cash and cash equivalents at the beginning of the year		217	1.246
Cash and cash equivalents at the end of the year		735	217

The notes on pages 13 to 25 are an integral part of these consolidated financial statements

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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 consolidated financial statements for the year 2020 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. A summary of significant accounting policies is disclosed in Note 32.

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.

These consolidated financial statements were approved and authorised for issue by the Company's Board of Directors on 18 February 2021.

Basis of measurement

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

Presentation and functional currency

These 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 consolidated 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 and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

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 2019.

Notes to the Consolidated Financial Statements

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 2020

	Mobile	Fixed voice	Internet & network	TV	IT services	Equipment sales	Other revenues	Total
Revenue	5.544	1.714	8.774	6.253	4.636	2.157	861	29.939
Expenses								(19.439)
EBITDA								10.500
Depreciation								(6.114)
Net finance cost								(702)
Taxes								(768)
Net earnings for the period								2.916
Capital additions								(5.743)
Assets								65.206
Liabilities								27.908

Operating segments 2019

	Mobile	Fixed voice	Internet & network	TV	IT services	Equipment sales	Other revenues	Total
Revenue	5.772	1.803	8.573	5.621	4.162	1.932	1.208	29.071
Expenses								(18.555)
EBITDA								10.516
Depreciation								(5.602)
Net finance cost								(1.045)
Share of earnings of associated companies								0
Taxes								(799)
Net earnings for the period								3.070
Capital additions								(6.333)
Assets								65.521
Liabilities								28.889

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Notes to the Consolidated Financial Statements

5. Net sales

Sales of service and goods is specified as follows:

	2020	2019
Sales of service	24.670	24.039
Sales of goods from IT services and telecom	4.726	4.270
	29.396	28.309

No customer comprises more than 10% of net sales.

6. Cost of sales

Cost of sales is specified as follows:

	2020	2019
Salaries and related expenses	3.311	3.385
Cost of service sold	4.367	3.574
Interconnecting fees	663	736
Cost of goods sold	4.340	3.878
Capitalised work	(889)	(844)
Depreciation cost of sold services	4.700	4.177
	16.492	14.906

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:

	2020	2019
Salaries and related expenses	4.340	4.531
Sales and marketing expenses	507	592
Housing and transportation expenses	705	721
IT-Expenses	778	856
General and administrative expenses *	1.317	1.126
Depreciation operating expenses	1.414	1.425
	9.061	9.251

* Due to the Competition Authority's decision on 28 May, the Company expensed ISK 500 million in the second quarter of the year. That decision from the Competition Authority led to a reduction in the Company's EBITDA forecast for 2020, as announced to the Icelandic Stock Exchange on May 28. Síminn appealed the ruling to the Competition Appeals Committee, which published its decision on 13 January 2021, where the committee partially overturned ruling 25/2020 and reduced the Company's fine by ISK 300 million.

Síminn hf. - Consolidated Financial Statements 2020 15 All amounts are in millions of ISK

Notes to the Consolidated Financial Statements

8. Salaries and salary-related expenses

Salaries and salary-related expenses is specified as follows:

	2020	2019
Salaries	6.275	6.476
Contributions to pension funds	821	846
Other salary-related expenses	555	594
	7.651	7.916
Average number of full year equivalents	597	647

75% of the Group's employees are men and 25% women, which is the same ratio as the year before.

Salaries and related expenses are specified as follows in the income statement:

	2020	2019
Cost of sales	3.311	3.385
Operating expenses	4.340	4.531
	7.651	7.916

9. Financial income and expense

Financial income and finance costs are specified as follow:

	2020	2019
Finance income		
Interest income	191	192
Dividend received	4	4
	195	196
Finance expense		
Interest on borrowings	(528)	(868)
Loan write-downs	(18)	0
Interest expense from lease liability	(246)	(272)
Other finance expenses	(51)	(87)
	(843)	(1.227)
Net exchange rate differences	(54)	(14)
Net financial items	(702)	(1.045)

10. Taxes

Income tax is calculated and expensed. Income tax for the year 2020, to be paid 2021, amounts to ISK 829 million. Equalization tax for the year 2020, to be paid 2021, amounts to ISK 21 million. Taxes to be paid at year end are ISK 850 million.

Reconciliation of effective income tax rate:

	2020		2019	
Profit before tax		3.684		3.869
Income tax using the Company's tax rate	20,0%	(737)	20,0%	(774)
Non-deductable expenses	0,8%	(30)	0,3%	(11)
Non-taxable income	(0,2%)	6	0,0%	0
Equalization tax	0,5%	(17)	0,4%	(17)
Other changes	(0,3%)	10	(0,1%)	3
Effective income tax rate	20,8%	(768)	20,7%	(799)

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Notes to the Consolidated Financial Statements

11. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Parent by the weighted average number of outstanding shares during the year. The calculation of diluted earnings per share is calculated by dividing the net profit attibutable to equity holders of the Parent by the weighted average number of outstanding shares with the diluting effects of expected shares in stock options given to employees. No stock option agreementst were active at year end 2020.

	2020	2019
Profit for the year attributable to equity holders of the parent company	2.916	3.070
Share capital in the beginning of the year	8.750	9.033
Effects of trades with own capital	(111)	(325)
Weighted average number of shares for the year	8.639	8.708
Basic earnings per share	0,34	0,34
Diluted earnings per share	0,34	0,35

12. Operating assets

Operating assets are specified as follow:

	Telecom equipment	Buildings	Other equipment	Total
Cost				
Balance at 1.1.2019	41.517	1.920	2.322	45.759
Additions	3.975	74	151	4.200
Sales and disposals	(76)	(84)	(89)	(249)
Balance at 31.12.2019	45.416	1.910	2.384	49.710
Regrouped	(457)	(7)	(993)	(1.457)
Additions	3.721	49	170	3.940
Sales and disposals	(663)	(15)	(62)	(740)
Balance at 31.12.2020	48.017	1.937	1.499	51.453
Depreciation and impairment losses				
Balance at 1.1.2019	25.214	911	1.575	27.700
Depreciation	3.135	87	257	3.479
Sales and disposals	(76)	(26)	(83)	(185)
Balance at 31.12.2019	28.273	972	1.749	30.994
Regrouped	(371)	(7)	(873)	(1.251)
Depreciation	3.133	91	221	3.445
Sales and disposals	(654)	(13)	(59)	(726)
Balance at 31.12.2020	30.381	1.043	1.038	32.462
Carrying amounts				
At 1.1.2019	16.303	1.009	747	18.059
At 31.12.2019	17.143	938	635	18.716
At 31.12.2020	17.636	894	461	18.991

The official real estate valuation of buildings owned by the Company is ISK 1.807 million (2019: ISK 1.784 million) and insurance value ISK 3.674 million (2019: ISK 3.538). Insurance value of other equipment is ISK 17.106 million (2019: ISK 20.681 million). The Company's operating assets are mortaged to secure debt.

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12. Operating assets, contd.:

Depreciation of operating asset and intangible assets are specified as follows in the income statement:	2020	2019
Cost of sales	4.700	4.177
Operating expenses	1.414	1.425
Total	6.114	5.602

Useful life is specified as follows:

Telecom equipment	4 - 30 years
Buildings	15 - 33 years
Other equipment	3 - 10 years

13. Right-of-use assets

The Group leases buildings, cars and fiber optics. The leases typically run for a period between 5 - 20 years, with an option to renew the lease after that date. Most leases provide for additional rent payments that are based on changes in local price indices. Previously, these leases were classified as operating leases under. IAS 17.

Right-of-use assets are specified as follows:	Telecom equipment	Buildings	Other equipment	Total
Cost				
Balance at 1.1.2019	156	5.350	61	5.567
Additions	13	41	30	84
Remeasurements	4	126	1	131
Balance at 31.12.2019	173	5.517	92	5.782
Additions	0	766	61	827
Cancelled leases	0	(80)	(20)	(100)
Adjustments for indexed leases	5	169	7	181
Balance at 31.12.2020	178	6.372	140	6.690
Depreciation				
Balance at 1.1.2019	0	0	0	0
Depreciation	11	615	38	664
Balance at 31.12.2019	11	615	38	664
Depreciation	11	612	52	675
Disposals	0	(11)	(16)	(27)
Balance at 31.12.2020	22	1.216	74	1.312
Carrying amounts				
At 1.1.2019	156	5.350	61	5.567
At 31.12.2019	162	4.902	54	5.118
At 31.12.2020	156	5.156	66	5.378

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14. Intangible assets

Intangible assets are specified as follow:

	Goodwill	Software	Other intangibles	Total
Cost				
Balance at 1.1.2019	55.185	4.606	3.480	63.271
Additions	0	497	2.753	3.250
Sales and disposals	0	(28)	0	(28)
Balance at 31.12.2019	55.185	5.075	6.233	66.493
Regrouped	(1.079)	(66)	(10)	(1.155)
Additions	51	379	928	1.358
Sales and disposals	(2)	(119)	0	(121)
Balance at 31.12.2020	54.155	5.269	7.151	66.575
Amortisation and impairment losses				
Balance at 1.1.2019	26.682	3.136	980	30.798
Depreciation	0	415	1.043	1.458
Sales and disposals	0	(28)	0	(28)
Balance at 31.12.2019	26.682	3.523	2.023	32.228
Regrouped	(7)	(62)	(1)	(70)
Depreciation	0	437	1.557	1.994
Sales and disposals	(2)	(119)	0	(121)
Balance at 31.12.2020	26.673	3.779	3.579	34.031
Carrying amounts				
At 1.1.2019	28.503	1.470	2.500	32.473
At 31.12.2019	28.503	1.552	4.210	34.265
At 31.12.2020	27.482	1.490	3.572	32.544

Useful life is specified as follows:

Software	2 - 7 years
Other intangibles	2 - 15 years

The Company's software is mortaged to secure debt.

14.1. Annual test for impairment

Goodwill and other intangible assets that have indefinite life are tested for impairment at each reporting date. In performing the annual impairment test of goodwill, an assessment is made as to whether the individual units of the company (cash-generating units) to which goodwill relates will be able to generate sufficient positive net cash flows in the future to support the value of goodwill, trademarks with an indefinite useful life and other net assets of the entity.

For the purpose of impairment testing, goodwill is allocated to units which represent the level the goodwill is monitored for internal management purposes. The total carrying vale of goodwill was allocated to each cash generated unit (CGU) as follows:

	2020	2019
Goodwill Síminn hf.	19.734	19.733
Goodwill Míla ehf.	7.718	7.718
Goodwill Sensa ehf., IT services	0	1.022
Goodwill Radíómiðun ehf., telecommuncation	30	30
	27.482	28.503
Trademark classified as Other Intangibles	1.589	1.589

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14.1. Annual test for impairment, contd.:

Síminn hf. and Crayon Group AS have signed a binding agreement on the sale of Síminn's subsidiary Sensa ehf. to Crayon. The goodwill of Sensa ehf. is now classified as an asset held for sale, see in Note 20. Sensa's expected sale price less costs is higher than the asset base and therefore there is no need to perform an impairment test on th company's goodwill.

The recoverable amounts of cash-generating units was based on their value in use and were determined by discounting the future cash flows generated from the continuing use of the CGU. Cash flows were projected based on actual operating results and a five year business plan. Cash flows beyond the forecast period were extrapolated using a constant nominal growth rate which management believes is consistent with the long-term average growth rate for the markets in which Síminn operates. Discount rates which reflect the risk-free interest rate with the addition of specific risks related to equity and liabilities are used to calculate recoverable amounts.

The forecast period used to calculate recoverable amount of Mila has been shortened from ten years to five year. The development of infrastructure that has taken place in recent years has come a long way and the remainder of that project will largely fall into place over the next five years. The company's cash flow will reach equilibrium at that time. Management therefore believes that there is no longer need for a longer forecast period than five year.

Measurement of trademarks is based on expected future cash flows for the trademarks on the basis of key assumptions about expected useful life and relief from royalty rate and a theoretically calculated tax effect. A discount rate is used which reflects the risk-free interest rate with the addition of specific and estimated future risks associated with the particular trademark.

The value in use were based number of key assumtions which represents the managements assessment of future trends in the market and are based on both external and internal sources. The key assumptions used for value in use calculations are as follows:

	2020	2019
Síminn		
Long term growth rate	1,8%	2,5%
Weighted average revenue growth 2020-2024 / 2019-2023	0,7%	1,3%
EBITDA average growth 2020-2024 / 2019-2023	2,1%	3,5%
WACC	7,0%	7,2%
Debt ratio	62,9%	55,4%
Finance cost rate	4,4%	4,2%
Míla		
Long term growth rate	2,0%	2,5%
Weighted average revenue growth 2020-2029 / 2019-2028	1,1%	2,1%
EBITDA average growth 2020-2029 / 2019-2028	1,3%	2,1%
WACC	6,8%	7,0%
Debt ratio	62,9%	55,4%
Finance cost rate	4,4%	4,2%
Radíómiðun		
Long term growth rate	2,5%	2,5%
Weighted average revenue growth 2020-2024 / 2019-2023	2,8%	3,1%
EBITDA average growth 2020-2024 / 2019-2023	6,7%	7,5%
WACC	13,1%	13,4%
Debt ratio	27,5%	28,1%
Finance cost rate	5,9%	5,4%

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14.1. Annual test for impairment, contd.:

The recoverable amounts of the cash-generating units were estimated to be higher than carrying amounts and no impairment was required.

In performing impairment test, management has to evaluate certain assumptions that are used performing the test. Those assumptions always include some uncertainty that can have effect on the outcome of test if those assumptions prove to be wrong. Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any cash generating unit to exceed its recoverable amount.

15. Subsidiaries

Subsidiaries are as follows:

	Principle place of operation	Ownership 2020	2019
Míla ehf.	Iceland	100,0%	100,0%
Radíómiðun ehf.	Iceland	100,0%	100,0%
Sensa ehf.	Iceland	100,0%	100,0%
Sensa IT Aps	Denmark	100,0%	100,0%
Farsímagreiðslur ehf.	Iceland	100,0%	100,0%

In December, Síminn hf. and Crayon Group AS signed a binding agreement on the sale of Síminn's subsidiary Sensa ehf. to Crayon. It is estimated that the transaction will take place in the first half of 2021, provided that certain conditions are met, incl. approval of the Competition Authority.

16. Other financial assets

Other financial assets are specified as follows:

	31.12.2020	31.12.2019
Investment in other companies	54	47
TV programs for screening	209	143
Prepaid expense	12	40
Non-current reveivables	269	242
Other financial assets total	544	472

17. Inventories

Inventories are specified as follows:

Finished goods	698	1.232
TV programs for screening	429	519
Inventory total	1.127	1.751

Cost of goods sold amounted to ISK 4.340 million (2019: 3.878 million). All finished goods has been pledged as security against borrowings.

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18. Accounts Receivables

Accounts receivables are specified as follows:

	31.12.2020	31.12.2019
Accounts receivables	3.280	4.345
Allowances for doubtful accounts	(133)	(157)
Accounts receivables total	3.147	4.188

Movement in the allowance for doubtful accounts

	31.12.2020	31.12.2019
Balance at the beginning of the year	(158)	(195)
Impairment losses recognised on receivables	(54)	(32)
Amount written off as uncollectable	72	70
Assets held for sale	7	0
Balance at the end of the year	(133)	(157)

In determining the recoverability of an account receivable, the Company considers any change in the credit quality of the accounts receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. See more information in note 26.

19. Other assets

Other assets are specified as follows:

	31.12.2020	31.12.2019
Prepayments and accrued income	389	613
Other current assets	445	181
Other assets total	834	794

20. Assets held for sale

In December, Síminn hf. and Crayon Group AS signed a binding agreement on the sale of Síminn's subsidiary Sensa ehf. to Crayon. It is estimated that the transaction will take place in the first half of 2021, provided that certain conditions are met, incl. approval of the Competition Authority. Selling price is ISK 3.250 million. The aim of the sale is to expand cooperation with the Crayon Group as a whole and provide companies with a more comprehensive telecommunications and IT service in one package, as well as reducing the company's operating costs. Sensa is classified undir IT in segment reports. Due to the planned sale, the assets and liabilities of Sensa ehf. are therefore classified as assets and liabilities for sale in the financial statements.

	31.12.2020
Goodwill	1.072
Operating assets	219
Inventories	84
Accounts receivables	508
Deferred tax asset	23
Assets held for sale	1.906
Current liabilities	776
Liabilities held for sale	776

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21. Equity

21.1. Share capital

The Company's share capital amounts to ISK 8.750 million (2019: ISK 9.250 million) according to its Articles of Association. Shareholders are entitled to one vote per share of one ISK. All shares are paid in full. The Company held own shares in the amount of ISK 2167 million at year end 2020.

21.2. Reserves

Reserves include the difference of; payments that the Group received in selling, bying and issuing own capital; and the nominal amount of issued capital.

21.3. Other statutory reserve

Other statutory reserves is a statutory reserve based on legal requirements of the Icelandic Financial Statements Act No. 3/2006.

21.4. Translation and other reserve

Translation and other reserve is as follows:

	Translation difference	Other reserve	Total
Balance at 1.1. 2019	453	588	1.041
Changes in the year	0	(585)	(585)
Balance at 31.12.2019	453	3	456
Balance at 1.1. 2020	453	3	456
Changes in the year	0	217	217
Translation difference	1	0	1
Balance at 31.12.2020	454	220	674

22. Non-current liabilities

Borrowings are specified as follows:

	2020		2019	
	Average interest rates	Balance	Average interest rates	Balance
Loans in ISK	3,29%	15.429	5,26%	15.621
Finance lease liabilities		10		10
Current maturities		(1.150)		(1.150)
		14.289		14.481

Changes in borrowings during the year are as follows:

	2020	2019
Balance at 1.1.	15.631	16.781
Repayment of borrowings	(192)	(1.150)
	15.439	15.631

Aggregated annual maturities are as follows:

Within 12 months	1.150	1.150
12 - 24 months	1.150	1.150
24 - 36 months	1.150	1.150
36 - 48 months	1.150	1.150
48 - 60 months	1.150	1.150
More than 60 months	9.689	9.881
Total borrowings, including current maturities	15.439	15.631

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23. Lease liabilities

Changes in lease liabilities during the year are as follows:	Telecom equipment	Buildings	Other equipment	Total
Lease liabilities 1.1. 2019	156	5.350	61	5.567
Repayment of lease liabilities	(7)	(506)	(39)	(552)
Additions	13	41	32	86
Remeasurements	4	126	1	131
Lease liabilities 31.12. 2019	166	5.011	55	5.232
Repayment of lease liabilities	(8)	(531)	(48)	(587)
Additions	0	766	61	827
Disposals	0	(68)	(6)	(74)
Remeasurements	5	169	7	181
Lease liabilities 31.12. 2020	163	5.347	69	5.579

Maturity analysis is as follows:	2020	2019
Within 12 months	513	600
12 - 24 months	503	336
24 - 36 months	514	324
36 - 48 months	529	341
48 - 60 months	558	351
More than 60 months	2.962	3.280
Lease liabilities, including current maturities	5.579	5.232

Extension options

Most of the Group's property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

24. Deferred tax

Analysis of movements in the net deferred tax balances during the period is as follows:	31.12.2020	31.12.2019
Deferred tax at the beginning of the year	802	898
Changes due to sale	9	0
Income tax posted to the income statement	693	778
Taxes to be paid	(829)	(874)
Prior year correction	(5)	0
Deferred tax liability at the end of the period	670	802

The deferred tax liability is allocated as follows:

Property and equipment	(344)	(323)
Intangible assets	(345)	(473)
Current assets	(20)	(33)
Leases	31	23
Hedge reserve	8	4
	(670)	(802)

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25. Other liabilities

Other liabilities are specified as follows:

	31.12.2020	31.12.2019
Accrued expenses	737	888
Salaries and related expenses	313	327
VAT	479	618
Other	11	11
Other liabilities total	1.540	1.844

28. Legal proceedings

The Company is currently involved in several legal disputes that relate i.a. to Competition and Media Act. 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 appealed the decision to the District Court og Reykjavík. The Reykjavík District Court ruled on the matter and partially annulled the Decision and lowerd the fined to 7 million ISK. After the initial Decisions of the PTA Vodafone 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 and the District Court dismissed the case due the failure to state the reasoning for the case. Vodafone later filed a motion to appoint two Court appointed Assessors and has filed a case against Síminn before the District Court and claimed damages of 125 million ISK. Síminn has rejeceted this claim and will file its written arguments soon. Gagnaveita Reykjavíkur 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.

IHM has sued Síminn for 337 million ISK plus interest for unpaid expenses from 2009. Síminn has rejected this claim and filed its written arguments.

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.

The Competition Authority reached a decision that Síminn had infringed Competition Authority Decision no. 6/2015 and 20/2015 and fined Síminn for 500 million ISK, which the Company has already paid. Síminn appealed the Decision to the Competition Appeal ommittee in order to have the CA decision annulled. The CAC annulled that part of the CA decision that related to alleged

31. Subsequent event

There are no subsequent events to report.

33. Standard issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- COVID-19-Related Rent Concessions (Amendment to IFRS 16).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.

Notes 26, 27, 29, 30 and 32 are not translated into English.

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Quarterly Statements - unaudited

Summary of the Company's operating results by quarters:

	1 F 2020	2 F 2020	3 F 2020	4 F 2020	Samtals
Net sales	7.120	7.169	7.119	7.988	29.396
Cost of sales	(3.802)	(4.118)	(3.819)	(4.753)	(16.492)
Gross profit	3.318	3.051	3.300	3.235	12.904
Other operating income	126	107	106	204	543
Operating expenses	(2.214)	(2.743)	(1.997)	(2.107)	(9.061)
Operating profit	1.230	415	1.409	1.332	4.386
Net financial items	(270)	(178)	(149)	(105)	(702)
Profit before tax	960	237	1.260	1.227	3.684
Income tax	(196)	(154)	(246)	(172)	(768)
Profit for the year	764	83	1.014	1.055	2.916
EBITDA	2.735	1.938	2.933	2.894	10.500

	1 F 2019	2 F 2019	3 F 2019	4 F 2019	Samtals
Net sales	6.773	6.808	6.958	7.770	28.309
Cost of sales	(3.425)	(3.591)	(3.523)	(4.367)	(14.906)
Gross profit	3.348	3.217	3.435	3.403	13.403
Other operating income	189	307	140	126	762
Operating expenses	(2.430)	(2.246)	(2.208)	(2.367)	(9.251)
Operating profit	1.107	1.278	1.367	1.162	4.914
Net financial items	(313)	(269)	(232)	(231)	(1.045)
Profit before tax	794	1.009	1.135	931	3.869
Income tax	(179)	(211)	(238)	(171)	(799)
Profit for the year	615	798	897	760	3.070
EBITDA	2.369	2.602	2.817	2.728	10.516

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