Consolidated Financial Statements

for the year ended 31 December 2018

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

Contents

Endorsement and Statement by the Board of Directors and the CEO

The financial statements comprise the consolidated financial statements of Síminn hf (the Company) and ist subsidiaries, as listed in note 14, for the year 2018.

Operations in the year 2018

The total sales for Síminn hf. for the year amounted to ISK 28.540 million according to the Consolidated Income Statement, compared to ISK 28.433 million for 2017. Net profit for the year 2018 amounted to ISK 282 million, compared to profit of ISK 3.076 million for 2017. Total assets as at 31 December 2018 amounted to ISK 58.834 million and total equity amounted to ISK 35.202 million according to the Statement of Financial Position. The Company's equity ratio was 59,8%. The Company paid ISK 311 million in dividend to it's shareholders in the year.

The Annual General Meeting of Síminn approved on 15 March 2018 a share capital reduction to cancel own shares. The reduction amounted to ISK 194 million of nominal value. The same General Meeting approved a share buyback program. The Company purchased in the period from April to June own shares of nominal value ISK 280 million, for ISK 1.242 million.

Síminn hf. purchased all shares in Advania MobilePay ehf. in April. Before Síminn hf. owned a share in it through Farsímagreiðslur ehf. Following the purchase Advania MobilPay ehf. was merged with Farsímagreiðslur ehf.

In September employees bought shares according to stock option plan of nominal value ISK 65,5 m.kr. for ISK 174 m.kr. It was the last part of stock option plan originated in 2015. No stock options are at year end 2018.

The number of shareholders at year end 2018 was 1,002, in the beginning of the year they were 1,124. At year end 2018 the ten largest shareholders were:

	Shares in ISK million	Shares in %
Lífeyrissjóður verslunarmanna	1.252	13,54%
Gildi - lífeyrissjóður	859	9,29%
Lífeyrissj.starfsm.rík. A-deild	788	8,52%
Global Macro Absolute Return A	570	6,16%
Stapi lífeyrissjóður	447	4,83%
Birta lífeyrissjóður	356	3,85%
Frjálsi lífeyrissjóðurinn	301	3,25%
Lífeyrissj.starfsm.rík. B-deild	291	3,15%
Global Macro Portfolio	283	3,06%
Söfnunarsjóður lífeyrisréttinda	278	3,01%
	5.425	58,66%

The Board of Directors proposes a dividend payment to shareholders in 2019 of ISK 330 million. The Board also proposes a share buyback programme for amount up to ISK 1.310 m.kr.

The Company's share capital amounts to ISK 9.250 million, of which the Company ownes ISK 217 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.

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 2018, its assets, liabilities and consolidated financial position as at 31 December 2018 and its consolidated cash flows for the year 2018. 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 2018 and confirm them by means of their signatures.

Reykjavík, 26 Februar 2019.

Board of Directors

Bertrand B. Kan, Chairman

Helga Valfells

Ksenia Nekrasova

Sylvía Kristín Ólafsdóttir

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, 2018, 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, 2018, 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.

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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of consolidated financial statements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 2018, the Company's goodwill amounted to ISK 28,5 million and is the single largest asset of the Company. Goodwill has been allocated to 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 the 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 about impairment test performed on the Group's goodwill at year-end is included in note 13 and information on significant accounting policies is in note 30.4.	We evaluated key assumptions used in calculating value of goodwill in each cash generating unit. The audit work included among other things: • The calculation model was evaluated and its functionality tested. • Key assumptions for projected cash flows and operating budgets were reviewed. This work included an evaluation of key assumptions regarding income, operating expenses, contribution margin and investments for the projected period. • Key assumptions regarding future growth following the projected period were evaluated. • Evaluating projected cash flows and operating budgets based on historic forecasts and actual results. • Key assumptions regarding cost of capital for each cash generating unit were reviewed and evaluated. WACC was compared to the Company's finance expenses and other market related assumptions. • Involving our KPMG valuation specialists in the audit of the impairment test.

Independent Auditor's Report, cont.

Key Audit Matters	How the matter was addressed in the audit

Revenue recognition

The Groups revenue recognition systems are complicated and process a large number of transactions in many systems. The main revenues are from connection and roaming charges, monthly fees, installation fees, cable rentals, advertisements in television and sales of goods and services. Revenue recognition of the Group is explained in note 30.5.

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.

We evaluated the design, implementation and functionality of automatic controls relating to revenue recognition by performing relevant substantive audit procedure to verify the accuracy in the Company'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 was tested. 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.

• Analysis of monthly trend in revenues compared previous periods. and cut-off in revenue was reviewed.

• Data analytical tools were utilised in testing sales transactions in order to detect unusual transaction for further examination.

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.
- 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.

Independent Auditor’s Report, cont.

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, 26 February 2019

KPMG ehf.

Consolidated Income Statement for the year 2018

	Notes	2018	2017
Net sales	5	27.925	27.992
Cost of sales	6	(14.479)	(14.418)
Gross profit		13.446	13.574
Other operating income		615	441
Operating expenses	7	(9.154)	(9.096)
Impairment losses	13	(2.990)	0
Operating profit		1.917	4.919
Finance income		213	398
Finance cost		(967)	(1.535)
Net exchange rate differences		(34)	14
Net financial items	9	(788)	(1.123)
Profit before tax		1.129	3.796
Income tax	10	(847)	(720)
Profit for the year		282	3.076
EBITDA		8.752	8.607

Profit attributable to

Equity holders of the parent		282	3.106
Non-controlling interest		0	(30)
Profit for the year		282	3.076

Earnings per share

Basic earnings per share		0,03	0,33
Diluted earnings per share		0,03	0,32

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

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Consolidated Statement of Comprehensive Income for the year 2018

	Notes	2018	2017
Profit for the year		282	3.076
Items that may subsequently be reclassified to the income statement:			
Translation difference of foreign operations		0	(13)
Total comprehensive income for the year		282	3.063
Total comprehensive income for the year attributable to			
Equity holders of the parent		282	3.093
Non-controlling interest		0	(30)
Total comprehensive income for the year		282	3.063

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 2018

	Notes	31.12.2018	31.12.2017
Assets			
Non-current assets			
Property, plant and equipment	12	18.059	17.024
Intangible assets	13	31.710	34.661
Other financial assets	15	424	658
Non-current assets		50.193	52.343
Current assets			
Inventories	16	2.350	2.345
Accounts receivables	17	4.313	4.470
Other assets	18	732	736
Cash and cash equivalents		1.246	718
Current assets		8.641	8.269
Total assets		58.834	60.612
Equity			
Share capital	19	9.033	9.247
Reserves	19	15.552	16.406
Other statutory reserve	19	154	201
Other reserve	19	456	1.041
Retained earnings		10.007	9.386
Total equity		35.202	36.281
Liabilities			
Non-current liabilities			
Borrowings	20	15.631	16.781
Deferred tax liabilities	21	898	817
Non-current liabilities		16.529	17.598
Current liabilities			
Bank loans		450	500
Accounts payables		2.997	2.950
Current maturities of borrowings	20	1.150	1.150
Taxes to be paid		766	345
Other liabilities	22	1.740	1.788
Current liabilities		7.103	6.733
Total liabilities		23.632	24.331
Total equity and liabilities		58.834	60.612

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 2018

	Share capital	Reserves	Other statutory reserve	Translation- and other reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total equity
Total equity 1.1.2017	9.444	17.105	216	467	7.235	34.467	(207)	34.260
Net profit (loss) for the year				602	2.504	3.106	(30)	3.076
Translation difference on foreign operation				(14)		(14)	1	(13)
Total comprehensive profit for the year				588	2.504	3.092	(29)	3.063
Payment of dividends (0,029171 per share)					(275)	(275)		(275)
Buyback of ordinary shares	(275)	(828)				(1.103)		(1.103)
Sold ordinary shares	9	19				28		28
Other changes				(14)	14	0		0
Change in non-controlling interest					(151)	(151)	236	85
Share option charge for the period			44			44		44
Share option excercised and vested during the period	69	110	(59)		59	179		179
Total equity 31.12.2017	9.247	16.406	201	1.041	9.386	36.281	0	36.281
Total equity 1.1.2018	9.247	16.406	201	1.041	9.386	36.281	0	36.281
Net Profit for the year					282	282		282
Payment of dividends (0,033588 per share)					(311)	(311)		(311)
Buyback of ordinary shares	(280)	(962)				(1.242)		(1.242)
Other changes				(585)	585	0		0
Share option charge for the period			18			18		18
Share option excercised and vested during the period	66	108	(65)		65	174		174
Total equity 31.12.2018	9.033	15.552	154	456	10.007	35.202	0	35.202

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 2018

	Notes	2018	2017
Cash flow from operating activities			
Operating profit		1.917	4.919
Operational items not affecting cash flow:			
Depreciation and impairment	12,13	6.835	3.688
Gain on sale of fixed assets		(105)	(2)
Other items not affecting cash flow		18	44
		8.665	8.649
Changes in current assets and liabilitites:			
Changes in inventories		(54)	(303)
Changes in operating assets		252	1.319
Changes in operating Liabilities		(7)	(569)
Changes in current assets and liabilitites		191	447
Cash generated by operation		8.856	9.096
Interest income received		217	415
Interest expenses paid		(967)	(1.473)
Payments of taxes		(345)	(615)
Net cash from operating activities		7.761	7.423
Investing activities			
Investment in property, plant and equipment	12	(4.511)	(4.438)
Investment in intangible assets	13	(378)	(508)
Proceeds from sale of property, plant and equipment		134	155
Changes in other investment		29	202
Investment in subsidiaries	14	(33)	0
Sale of subsidiaries	14	0	(26)
Changes in other investment		145	29
Investment activities		(4.614)	(4.586)
Financing activities			
Dividend paid		(311)	(275)
Buyback of ordinary shares		(1.242)	(1.102)
Proceeds from the excercise of share options		174	179
New borrowings		0	18.400
Payments of non-current liabilities	20	(1.150)	(23.486)
Bank loans, increase		(50)	500
Financing activities		(2.579)	(5.784)
Increase (decrease) in cash and cash equivalents		568	(2.947)
Effect of exchange rate fluctuations on cash held		(40)	(2)
Cash and cash equivalents at the beginning of the year		718	3.667
Cash and cash equivalents at the end of the year		1.246	718

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 2018 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 30.

The Group's 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 26 February 2019.

Basis of measurement

The consolidated 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.

3. New standards and interpretations

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 2017, with the exception of changes because of IFRS 15 and IFRS 9.

IFRS 15 Revenue from Contracts with Customers

The Group has initially applied IFRS 15, effective from 1 January 2018. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 dit not have any effects on the Group's revenue recognision.

IFRS 9 Financial Instruments

The Group has initially applied IFRS 9 effective from 1 January 2018. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. IFRS 9 did not have impact on the Group.

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 2018

	Mobile	Fixed voice	Internet & network	TV	IT services	Equipment sales	Other revenues	Total
Revenue	6.132	1.882	8.872	4.803	3.735	2.052	1.064	28.540
Expenses								(19.788)
EBITDA								8.752
Depreciation and amortisation								(6.835)
Net finance cost								(788)
Taxes								(847)
Net earnings for the period								282
Capital additions								(4.755)
Assets								58.834
Liabilities								23.632

Operating segments 2017

	Mobile	Fixed voice	Internet & network	TV	IT services	Equipment sales	Other revenues	Total
Revenue	6.652	2.096	8.583	4.118	4.111	1.883	990	28.433
Expenses								(19.826)
EBITDA								8.607
Depreciation								(3.688)
Net finance cost								(1.123)
Share of earnings of associated companies								0
Taxes								(720)
Net earnings for the period								3.076
Capital additions								(4.791)
Assets								60.612
Liabilities								24.331

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Notes to the Consolidated Financial Statements

5. Net sales

Sales of service and goods is specified as follows:

	2018	2017
Sales of service	23.868	23.848
Sales of goods from IT services and telecom	4.057	4.144
	27.925	27.992

No customer comprises more than 10% of net sales

6. Cost of sales

Cost of sales is specified as follows:

Salaries and related expenses	3.426	3.622
Cost of service sold	4.154	3.935
Interconnecting fees	947	939
Cost of goods sold	3.670	3.713
Capitalised work	(816)	(753)
Depreciation cost of sold services	3.098	2.962
	14.479	14.418

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	4.547	4.386
Sales and marketing expenses	553	611
Housing and transportation cost	1.446	1.464
IT-Expenses	892	881
Bad debt write offs	0	0
Miscellaneous other expenses	969	1.028
Depreciation operating expenses	747	726
Amortization	#REF!	#REF!
	#REF!	#REF!

8. Salaries and salary-related expenses

Salaries and salary-related expenses is specified as follows:

Salaries	6.521	6.657
Contributions to pension funds	814	708
Other salary-related expenses	638	643
	7.973	8.008
Average number of full year equivalents	699	727

74% of the Group's employees are men and 26% women.

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Notes to the Consolidated Financial Statements

9. Financial income and expense

Financial income and finance costs are specified as follow:	2018	2017
Finance income		
Interest income	208	372
Dividend received	5	26
	213	398
Finance expense		
Interest on borrowings	(942)	(1.159)
Indexation expenses	0	(72)
Income (loss) from investments	0	(147)
Other finance expenses	(25)	(157)
	(967)	(1.535)
Net exchange rate differences	(34)	14
Net financial items	(788)	(1.123)

10. Taxes

Income tax is calculated and expensed. Income tax for the year 2018, to be paid 2019, amounts to ISK 744 million. Equalization tax for the year 2018, to be paid 2019, amounts to ISK 22 million. Taxes to be paid at year end are ISK 766 million.

Reconciliation of effective income tax rate:	2018		2017	
Profit before tax		1.129		3.796
Income tax using the Company's tax rate	20,0%	(226)	20,0%	(759)
Amortization, non-deductable	53,0%	(598)	0,0%	0
Non-deductable expenses	0,6%	(7)	0,4%	(16)
Non-taxable income	(0,1%)	1	(1,1%)	41
Equalization tax	1,5%	(17)	0,4%	(17)
Other changes	0,0%	0	(0,8%)	31
Effective income tax rate	75,0%	(847)	19,0%	(720)

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 2018.

	2018	2017
Profit for the year attributable to equity holders of the parent company	282	3.106
Share capital in the beginning of the year	9.247	9.444
Effects of trades with own capital	(161)	(91)
Weighted average number of shares for the year	9.086	9.353
Basic earnings per share	0,03	0,33
Weighted average number of shares for the year	9.086	9.353
Effects of stock options given to employees	0	206
Weighted average number of shares for the year	9.086	9.559
Diluted earnings per share	0,03	0,32

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Notes to the Consolidated Financial Statements

12. Operating assets

Operating assets are specified as follow:

	Telecom equipment	Buildings	Other equipment	Total
Cost				
Balance at 1.1.2017	36.840	2.047	2.416	41.303
Regrouped	(30)	0	9	(21)
Additions	4.181	35	222	4.438
Additions due to acquisition of a company	(102)	0	(48)	(150)
Sales and disposals	(2.176)	(170)	(209)	(2.555)
Effects of movements in exchange rates	3	0	1	4
Balance at 31.12.2017	38.716	1.912	2.391	43.019
Additions	4.199	41	271	4.511
Sales and disposals	(1.398)	(33)	(340)	(1.771)
Balance at 31.12.2018	41.517	1.920	2.322	45.759
Depreciation and impairment losses				
Balance at 1.1.2017	22.921	787	1.477	25.185
Regrouped	(12)	0	5	(7)
Depreciation	2.890	91	362	3.343
Additions due to acquisition of a company	(78)	0	(48)	(126)
Sales and disposals	(2.171)	(36)	(196)	(2.403)
Effects of movements in exchange rates	2	0	1	3
Balance at 31.12.2017	23.552	842	1.601	25.995
Depreciation	3.055	84	309	3.448
Sales and disposals	(1.393)	(15)	(335)	(1.743)
Balance at 31.12.2018	25.214	911	1.575	27.700
Carrying amounts				
At 1.1.2017	13.919	1.260	939	16.118
At 31.12.2017	15.164	1.070	790	17.024
At 31.12.2018	16.303	1.009	747	18.059

The official real estate valuation of buildings owned by the Company is ISK 1.917 million (2017: ISK 1.854 million) and insurance value ISK 3.502 million (2017: ISK 3.412). Insurance value of other equipment is ISK 19.768 million (2017: ISK 17.570 million). The Company's operating assets are mortaged to secure debt.

Depreciation of operating asset and intangible assets are specified as follows in the income statement:	2018	2017
Cost of sales	3.098	2.962
Operating expenses	3.737	726
Total	6.835	3.688

Useful life is specified as follows:

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

All amounts are in millions of ISK

Notes to the Consolidated Financial Statements

13. Intangible assets

Intangible assets are specified as follow:

	Goodwill	Software	Other intangibles	Total
Cost				
Balance at 1.1.2017	55.109	5.896	2.138	63.143
Regrouped	0	(8)	29	21
Additions	28	441	67	536
Additions due to acquisition of a company	(10)	0	(164)	(174)
Effects of movements in exchange rates	0	0	4	4
Sales and disposals	0	(1.941)	(9)	(1.950)
Balance at 31.12.2017	55.127	4.388	2.065	61.580
Additions	58	378	0	436
Sales and disposals	0	(160)	(117)	(277)
Balance at 31.12.2018	55.185	4.606	1.948	61.739
Amortisation and impairment losses				
Balance at 1.1.2017	23.702	4.591	262	28.555
Regrouped	0	(5)	12	7
Depreciation	0	286	59	345
Deduction due to sale of subsidiary	(10)	0	(30)	(40)
Sales and disposals	0	(1.940)	(8)	(1.948)
Balance at 31.12.2017	23.692	2.932	295	26.919
Depreciation	2.990	364	33	3.387
Sales and disposals	0	(160)	(117)	(277)
Balance at 31.12.2018	26.682	3.136	211	30.029
Carrying amounts				
At 1.1.2017	31.407	1.305	1.876	34.588
At 31.12.2017	31.435	1.456	1.770	34.661
At 31.12.2018	28.503	1.470	1.737	31.710

Useful life is specified as follows:

Software	2 - 7 years
Other intangibles	3 - 15 years

The Company's software is mortaged to secure debt.

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13.1. 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:

	2018	2017
Goodwill Síminn hf.	19.733	19.675
Goodwill Míla ehf.	7.718	10.708
Goodwill Sensa ehf., IT services	1.022	1.022
Goodwill Radíómiðun ehf., telecommuncation	30	30
	28.503	31.435

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 to ten 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 each CGU is five years except for Míla were the forecast period is ten years. Management believes that this forecast period was justified due to the long-term nature of Míla's business.

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:

	2018	2017
Síminn		
Long term growth rate	2,5%	2,5%
Weighted average revenue growth 2019-2023 / 2018-2022	1,6%	1,1%
EBITDA average growth 2019-2023 / 2018-2022	3,3%	1,4%
WACC	9,6%	9,3%
Debt ratio	40,6%	39,6%
Finance cost rate	5,1%	4,8%
Míla		
Long term growth rate	2,5%	2,5%
Weighted average revenue growth 2019-2028 / 2018-2027	2,1%	2,1%
EBITDA average growth 2019-2028 / 2018-2027	2,2%	3,3%
WACC	9,5%	9,0%
Debt ratio	40,6%	39,6%
Finance cost rate	5,3%	4,8%

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13.1. Annual test for impairment, contd.:

	2018	2017
Sensa		
Long term growth rate	3,5%	3,5%
Weighted average revenue growth 2019-2023 / 2018-2022	2,6%	2,5%
EBITDA average growth 2019-2023 / 2018-2022	5,4%	2,1%
WACC	11,8%	11,7%
Debt ratio	9,8%	12,4%
Finance cost rate	5,1%	4,8%
Radíómiðun		
Long term growth rate	2,3%	2,5%
Weighted average revenue growth 2019-2023 / 2018-2022	1,5%	1,6%
EBITDA average growth 2019-2023 / 2018-2022	2,9%	3,2%
WACC	14,9%	14,7%
Debt ratio	24,0%	23,1%
Finance cost rate	6,7%	6,4%

During the year ended 31 December 2018, the goodwill in relation to the operation in Míla ehf. was impaired by 2.990 million following adverse movements in the discount rate and the management decision to increase the speed of the FTTH project rollout. The impairment loss recognised in the consolidated income statement, as separate line item within operating profit, in respect of goodwill is as follows:

	2018	2017
Impairment in Míla ehf.	2.990	0

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. Following the impairment loss recognised in Míla ehf., the recoverable amount equalled its carrying value. Consequently, any adverse change in key assumption would, in isolation, cause a further impairment loss to be recognised. Other than previously disclosed, 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.

14. Subsidiaries

Subsidiaries are as follows:

	Principle place of operation	Ownership 2018	Ownership 2017
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%

Síminn hf. purchased all shares in Advania MobilePay ehf. in April. Before Síminn hf. owned a share in it through Farsímagreiðslur ehf. Following the purchase Advania MobilPay ehf. was merged with Farsímagreiðslur ehf.

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15. Other financial assets

Other financial assets are specified as follows:

	31.12.2018	31.12.2017
Investment in other companies	46	221
TV programs for screening	149	99
Prepaid expense	15	229
Non-current reveivables	214	109
Other financial assets total	424	658

15.1. Investment

At the end of the year the Company owned shares in two foreign and five domestic companies where the ownhership was less than 20%.

15.2. Non-current receivables

Non-current receivables are trade receivables for periods longer than 12 months.

16. Inventories

Inventories are specified as follows:

Finished goods	1.333	1.372
TV programs for screening	1.017	973
Inventory total	2.350	2.345

Cost of goods sold amounted to ISK 3.670 million (2017: 3.713 million). All finished goods has been pledged as security against borrowings.

17. Accounts Receivables

Accounts receivables are specified as follows:

Accounts receivables	4.508	4.776
Allowances for doubtful accounts	(195)	(306)
Accounts receivables total	4.313	4.470

Movement in the allowance for doubtful accounts		
Balance at the beginning of the year	(306)	(464)
Impairment losses recognised on receivables	31	29
Amount written off as uncollectable	80	129
Balance at the end of the year	(195)	(306)

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 23.

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18. Other assets

Other assets are specified as follows:

	31.12.2018	31.12.2017
Prepayments and accrued income	617	588
Other current assets	115	148
Other assets total	732	736

19. Equity

19.1. Share capital

The Company's share capital amounts to ISK 9.250 million (2017: ISK 9.444 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 217 million at year end 2017.

19.2. 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.

19.3. Other statutory reserve

Other statutory reserves include statutory reserve based on legal requirements of the Icelandic Financial Statements Act No. 3/2006 and a reserve based on possible share options to employees.

19.4. Translation and other reserve

Translation and other reserve is as follows:

	Trans-lation difference	Other reserve	Total
Balance at 1.1.2017	467	0	467
Changes in the year	0	588	588
Translation difference	(14)	0	(14)
Balance at 31.12.2017	453	588	1.041
Balance at 1.1.2018	453	588	1.041
Changes in the year	0	(585)	(585)
Balance at 31.12.2018	453	3	456

20. Non-current liabilities

Borrowings are specified as follows:

	2018		2017	
	Average interest rates	Balance	Average interest rates	Balance
Loans in ISK	5,56%	16.771	5,33%	17.921
Finance lease liabilities		10		10
Current maturities		(1.150)		(1.150)
		15.631		16.781

Changes in borrowings during the year are as follows:	31.12.2018	31.12.2017
Balance at 1.1.2018	17.931	22.944
Repayment of borrowings	(1.150)	(23.486)
Indexation	0	73
New borrowings	0	18.400
	16.781	17.931

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20. Non-current liabilities, contd.:

Aggregated annual maturities are as follows:

	31.12.2018	31.12.2017
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	11.031	12.181
Total borrowings, including current maturities	16.781	17.931

21. 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	817	442
Income tax posted to the income statement	825	702
Taxes to be paid	(744)	(323)
Prior year correction	0	(4)
Deferred tax liability at the end of the period	898	817

The deferred tax liability is allocated as follows:

Property and equipment	(338)	(286)
Intangible assets	(532)	(516)
Current assets	(32)	(12)
Hedge reserve	4	(3)
	(898)	(817)

22. Other liabilities

Other liabilities are specified as follows:

Accrued expenses	836	922
Salaries and related expenses	330	311
VAT	562	544
Other	12	11
Other liabilities total	1.740	1.788

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26. 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 due to alleged infringement of the Competition Authority's decision no 10/2005. 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 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.

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 will explore its legal rights following the Supreme Court judgment.

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.

31. New standards and interpretations

IFRS 16 Leases

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, ingluding IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its leases of buildings, cars and fiber optics. The nature of expenses related to those leases will now change because the Group will recognise 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.

Leases in which the Group is a lessor

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

31. New standards and interpretations, contd.:

Transition

The Group plans to apply IFRS 16 initially on 1 January 2019. Based on available information the lease liabilities is estimated to amount ISK 5.565 million on 1 January and the right of use asset the same amount. The adoption of IFRS 16 will not have impact on bookvalue of equity and is not considered to have impact on loan terms. The adoption is not considered to affect the financial covenants of loan agreements.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified leases in accordance with IAS 17 and IFRIC 4.

Notes 23 - 25 and 27 - 30 are not translated into English.

Quarterly Statements - unaudited

Summary of the Company's operating results by quarters:

	1 F 2018	2 F 2018	3 F 2018	4 F 2018	Total
Net sales	6.756	6.921	6.828	7.420	27.925
Cost of sales	(3.302)	(3.610)	(3.371)	(4.196)	(14.479)
Gross profit	3.454	3.311	3.457	3.224	13.446
Other operating income	118	232	141	124	615
Operating expenses	(2.275)	(2.280)	(2.156)	(2.443)	(9.154)
Impairment losses	0	0	0	(2.990)	(2.990)
Operating profit (loss)	1.297	1.263	1.442	(2.085)	1.917
Net financial items	(182)	(190)	(211)	(205)	(788)
Profit (loss) before tax	1.115	1.073	1.231	(2.290)	1.129
Income tax	(228)	(220)	(253)	(146)	(847)
Profit (loss) for the year	887	853	978	(2.436)	282
EBITDA	2.231	2.216	2.397	1.908	8.752

	1 F 2017	2 F 2017	3 F 2017	4 F 2017	Total
Net sales	6.602	7.145	6.856	7.389	27.992
Cost of sales	(3.246)	(3.687)	(3.380)	(4.105)	(14.418)
Gross profit	3.356	3.458	3.476	3.284	13.574
Other operating income	121	109	100	111	441
Operating expenses	(2.290)	(2.289)	(2.113)	(2.404)	(9.096)
Operating profit	1.187	1.278	1.463	991	4.919
Net financial items	(207)	(258)	(315)	(343)	(1.123)
Profit before tax	980	1.020	1.148	648	3.796
Income tax	(206)	(230)	(243)	(41)	(720)
Profit for the year	774	790	905	607	3.076
EBITDA	2.099	2.191	2.387	1.930	8.607

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