

Sýn hf.

Condensed Interim Financial Statements
January 1st to September 30th, 2019



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Report by the Board of Directors and CEO

Sýn hf. is a fully comprehensive communications and media provider. The Company operates many of the most powerful media platforms in Iceland like Channel 2, Bylgjan Radio, Visir.is, FM957, the X and other well-known media. The Company provides individuals, companies, institution and public bodies with all the core aspects of communication services under the brand of Vodafone Iceland. The Company works in close global co-operation with Vodafone Group, which is one of the largest multinational communication company in the world.

These Condensed Interim Financial Statements have been prepared in accordance with IAS 34, as adopted by the European Union and additional requirements in Icelandic laws and rules for listed companies. The Interim Financial statements contain the Company's Condensed Interim Financial Statements and share in the joint operation of Sendafélagið ehf. The Condensed Interim Financial Statements of the Company from January 1 to September 30, 2019 have not been reviewed by the Company's auditors.

The majority of shares in P/F Hey was sold in beginning of 2019. Sýn hf. 's share (49,9%) in the new merged company is accounted for under the equity method from January 1st 2019. Profit from the sale, amounting to ISK 817 million, was recorded in Q1 2019.

Sýn hf. has signed a purchase agreement for the acquisition of all shares in the information technology company Endor. The agreement is made subject to the approval of the Competition Authority. Sýn hf. will operate Endor in its unchanged form as a subsidiary. Endor has built up brands both domestically and abroad in the field of cloud and hosting solutions. The agreement will strengthen Sýn's international revenue.

Operations and financial position January 1st to September 30th, 2019

According to the Income Statement, revenues from goods sold and service provided amounts to ISK 14,876 mill. Profit of the period from continuing operations amounts to ISK 384 mill. According to the Statement of Financial Position, assets of the Company amounts to ISK 30,062 mill. The equity position at the end of the period on September 30th 2019 amounts to ISK 10,911 mill. Thereof share capital amounts to ISK 2,964 mill. The equity ratio at period end is 36,3%.

Statement

According to the best knowledge of the Board of Directors and the CEO, these Condensed Interim Financial Statement of Sýn hf. are prepared and presented in accordance with International Financial Reporting Standards for Interim Financial Reporting, IAS 34, as adopted by the EU and additional requirements in Icelandic laws and rules for listed companies. It is The Board of Directors and CEO opinion that these Condensed Interim Financial Statements give a true and fair view of the financial performance of Sýn hf. for the nine month period ended on September 30th 2019, its financial position as of September 30th 2019 and the Company's cash flows for the period.

The Board of Directors and the CEO of Sýn hf. have today discussed the Condensed Interim Financial Statements of Sýn hf. for the period from January 1st to September 30th 2019 and confirm them by means of their signatures.

Reykjavík, 6. November 2019

Board of Directors:

Hjörleifur Pálsson, Chairman of the Board

Anna Guðný Aradóttir

Sigríður Vala Halldórsdóttir

Tanya Zharov

Yngvi Halldórsson

CEO

Heiðar Guðjónsson

Key Figures

	2019 Q3	2018 Q3	2019 9M	2018 9M
Financial information				
Revenues	4,878	5,143	14,876	15,330
Operating profit	186	474	235	867
Profit (loss) before tax	(93)	262	269	318
Profit (loss) for the period	(71)	207	384	249
Earnings per share from continuing operations	(0.25)	0.70	1.30	0.84
Investments	303	474	1,416	1,745
Investments in license rights	806	702	1,634	2,101
Cash generated by operations	1,235	1,185	3,424	3,331
Performance evaluation				
EBITDA for the period*	1,623	1,785	4,100	4,253
EBITDA ratio for the period	33.3%	34.7%	27.6%	27.7%
Free cash flow**	435	159	1,113	(23)
Net interest bearing debt***	14,760	11,358	14,760	11,358

*The amounts for 2018 has been restated, see further in note 5.

**Free cash flow consists of cash from operations before interest and income tax less investment activities. Investments in shares is excluded as it is not related to the Company's reinvestment needs.

***Net interest-bearing liabilities in 2019 include lease liabilities recognized in accordance with IFRS 16.

Income statement

January 1st to September 30th 2019

	Notes	2019 Q3	2018 Q3	2019 9M	2018 9M
Revenue from sales of goods and services	9	4,878	5,143	14,876	15,330
Cost of sales	10	(3,133)	(3,112)	(9,491)	(9,275)
Gross profit		1,745	2,031	5,385	6,055
Operating expense	11	(1,559)	(1,557)	(5,150)	(5,188)
Operating profit		186	474	235	867
Finance income		42	10	38	38
Finance expense	8	(337)	(220)	(848)	(573)
Net financial expense		(295)	(210)	(810)	(535)
Effects of associates		16	(2)	844	(14)
Profit (loss) before tax		(93)	262	269	318
Income tax		22	(55)	115	(69)
Profit (loss) for the period from continuing operations		(71)	207	384	249
Profit for the period from discontinued operations		-	19	-	29
Profit (loss) for the period		(71)	226	384	278
Earnings (loss) per share from continuing operations		(0.25)	0.70	1.30	0.84
Diluted earnings (loss) per share from continuing operations		(0.25)	0.70	1.30	0.84

Statement of Comprehensive income

January 1st to September 30th 2019

	2019 Q3	2018 Q3	2019 9M	2018 9M
Profit (loss) for the period	(71)	226	384	278
Items that may subsequently be reclassified to profit or loss				
Translation difference	(21)	28	(98)	20
Items that will not subsequently be reclassified to profit or loss				
Cash flow hedges	8	(1)	111	28
Total comprehensive income for the period	44	253	397	326

The notes on pages 9 to 13 are an integral part of these Condensed Interim Financial Statements.

Statement of Financial Position

September 30th 2019

	Notes	30.9.2019	31.12.2018*
Non-current assets			
Property, plant and equipment		4,928	4,785
Right-of-use assets	4	3,296	-
Goodwill		10,646	10,646
Other intangible assets		4,698	4,808
Shares in other companies		1,269	48
Total non-current assets		24,837	20,287
Current assets			
Broadcasting license rights	5	1,432	1,545
Inventories	5, 13	415	364
Accounts receivables and other short term receivables		3,251	3,403
Cash and cash equivalents		127	356
Current assets of continuing operations		5,225	5,668
Assets classified as held for sale		-	1,056
Total current assets		5,225	6,724
Total assets		30,062	27,011
Equity			
Share capital		2,964	2,964
Statutory reserves		2,465	2,465
Other reserve		50	(1)
Retained earnings		5,432	5,279
Total equity		10,911	10,707
Non-Current liabilities			
Interest bearing debt		10,600	10,874
Lease liabilities	4	3,168	-
Deferred tax liabilities		25	138
Total non-current liabilities		13,793	11,012
Current liabilities			
Interest bearing debt		689	687
Lease liabilities	4	430	-
Accounts payable and other short term liabilities		4,239	4,167
Current liabilities of continuing operations		5,358	4,854
Liabilities connected to assets classified for sale		-	438
Total current liabilities		5,358	5,292
Total liabilities		19,151	16,304
Total equity and liabilities		30,062	27,011

* Restated, see note 5.

The notes on pages 9 to 13 are an integral part of these Condensed Interim Financial Statements.

Statement of Changes in Equity

January 1st to September 30th 2019

	Share Capital	Statutory reserve	Translation difference	Other Reserve	Cash Flow Hedges	Retained earnings	Total equity
1.1. to 30.09.2018							
Total equity 1.1.2018	2,964	2,465	64	87	(169)	4,719	10,131
Profit for the period	-	-	-	-	-	278	278
Translation difference	-	-	20	-	-	-	20
Cash flow hedges	-	-	-	-	28	-	28
Comprehensive Income	0	0	20	0	28	278	326
Total Equity 30.9.2018	2,964	2,465	84	87	(141)	4,996	10,457
1.1. to 30.9.2019							
Total equity 1.1.2019	2,964	2,465	110	-	(111)	5,279	10,707
Impact of IFRS 16 implementation	-	-	-	-	-	(193)	(193)
Restated Equity 1.1. 2019	2,964	2,465	110	0	(111)	5,086	10,514
Profit for the period	-	-	-	-	-	384	384
Translation difference	-	-	(98)	-	-	-	(98)
Cash flow hedges	-	-	-	-	111	-	111
Comprehensive Income	0	0	(98)	0	111	384	397
Profit of associate in excess of dividend received	-	-	-	38	-	(38)	0
Total equity 30.09.2019	2,964	2,465	12	38	0	5,432	10,911

The notes on pages 9 to 13 are an integral part of these Condensed Interim Financial Statements.

Statement of Cash Flow

January 1st to September 30th 2019

	Notes	2019 Q3	2018 Q3*	2019 9M	2018 9M*
Operating profit (loss)		(71)	226	384	278
Adjustment for non-cash items:					
Depreciation and amortization	5, 12	1,437	1,311	3,865	3,386
Net finance expense		295	210	810	535
Effects of associates	6	(16)	(17)	(844)	(15)
Income tax		(22)	55	(114)	69
Cash generated from operating activities		1,623	1,785	4,101	4,253
Change in working capital:					
Change in inventories	5, 13	(31)	(61)	(135)	(190)
Change in operating assets		96	(17)	139	(459)
Change in operating liabilities		(145)	(372)	58	219
Cash generated by operations before interest and tax		1,544	1,335	4,163	3,823
Interest income received		11	10	38	37
Interest expense paid		(320)	(160)	(777)	(529)
Cash generated by operations		1,235	1,185	3,424	3,331
Investment activities					
Investment in shares in other companies		(10)	(8)	(3)	(33)
Investment in property, plant and equipment		(216)	(390)	(1,011)	(1,165)
Investment in intangible assets		(87)	(84)	(405)	(580)
Investment in broadcasting license rights		(806)	(702)	(1,634)	(2,101)
Investment activities		(1,119)	(1,184)	(3,053)	(3,879)
Financial activities					
Instalment of interest bearing debts		(171)	(140)	(512)	(368)
Changes in revolving credit facility		(85)	95	236	894
Instalment of lease liabilities		(111)	-	(324)	-
Financial activities		(367)	(45)	(600)	526
Change in cash and cash equivalents		(251)	(44)	(229)	(22)
Cash and cash equivalents classified for as held for sale		-	(35)	-	(35)
Effect of exchange rate changes on cash held		-	(1)	-	(1)
Cash and cash equivalents at the beginning of the period		378	351	356	329
Cash and cash equivalents at the end of period		127	271	127	271

*Restated, see note 5

The notes on pages 9 to 13 are an integral part of these Condensed Interim Financial Statements.

Notes

1. The Company

Sýn hf. ("the Company") is an Icelandic limited liability company. The address of its registered office is Sudurlandsbraut 8, Reykjavik. The main operation of the Company is communication and media service. The Condensed Interim Financial Statements of the Company for the nine months ended on September 30th 2019 incorporates the Interim Financial statements of the Company and its share in joint operation of Sendafelagid ehf, which are referred to combined as "the Company".

2. Summary of Significant Accounting Policies

a. Basis of accounting

These Condensed Interim Financial Statements have been prepared in accordance with IAS 34, as adopted by the European Union and additional requirements in Icelandic laws and rules for listed companies. These Condensed Interim Financial Statements for the period from January 1st to September 30th, 2019 have not been reviewed by the Company's auditors.

The Condensed Interim Financial Statements are prepared in accordance with the same accounting principles as the Financial Statements for 2018, with the exception that a new accounting standard for leases (IFRS 16) came into effect on January 1st, 2019, see further discussion in note 4 and change in accounting policy of broadcasting licence rights, see further discussion in note 5. The Condensed Interim Financial Statements does not include all the information required for a complete set of IFRS financial statements and should be read in the context of the Company's Financial Statements for 2018. The Financial Statements for 2018 can be found on the Company's website www.syn.is and on the ICEX website; www.nasdaqomxnordic.com.

The Board of Directors and the CEO confirmed these Condensed Interim Financial Statements on 6th of November 2019.

b. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

3. Functional and presentation currency

The Condensed Interim Financial Statements are presented in Icelandic krona, which is the presentation currency of the Company. All amounts are rounded to the nearest million, except when otherwise indicated.

4. Adoption of new and revised Standards

The Company, implemented IFRS 16 Leases for the first time in the beginning of the year. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease requires the recognition of a right-of-use asset and a lease liability at commencement date for all leases, except for short-term leases and leases of low value assets. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The Company has applied IFRS 16 using the modified retrospective approach, with no restatement of comparative information. The Company has elected to apply the practical expedient to grandfather the definition of a lease on transition, and thereby applying IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

With the application of IFRS 16, the nature of expenses related to operating leases will now change because the Company will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Company recognized operating lease expense on a straight-line basis over the term of the lease. As a result, the application of IFRS 16 leads to a decrease in profit for the nine months ending on September 30th 2019 by 30 million ISK. The effects on PnL line items are as follows: Increase in depreciation and amortisation expense by 360 million ISK, increase in finance cost by 141 million ISK and decrease in operating expenses by 471 million ISK.

Notes, continued.:

4. Adoption of new and revised Standards cont.:

Earning per share for the nine months ended on September 30th 2019 were 1.3 (basic) and 1.3 (diluted) compared to 1.2 (basic) and 1.2 (diluted) under the prior lease standard IAS 17.

At initial application on January 1st 2019 the Company recognized additional lease liabilities of 3,801 million ISK and a right-of-use asset 3,511 million ISK. Sublease amounting to 97 million ISK and retained earnings 193 million ISK.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities in the year 2019 has increased by 324 million and net cash used in financing activities increased by the same amount.

5. Change in accounting policy of broadcasting licence rights

At the beginning of the year, the classification and measurement of broadcasting licence rights was changed. Broadcasting license right was classified as inventory but as of January 1, 2019, it is classified as intangible assets. Broadcast license expense is therefore classified from 1.1.2019 among amortization. The amounts for 2018 have been restated. See below:

Change in inventories are specified as follows:	31.12.2018	Change	Restated 31.12.2018
Inventories	1,909	(1,545)	364

Change in amortization are specified as follows:	30.9.2018	Change	Restated 30.9.2018
Amortization	1,460	1,926	3,386

Change in amortization are specified as follows:	2018 3F	Change	Restated 2018 3F
Amortization	497	814	1,311

6. Sale of majority share in P/F Hey

The majority share in P/F Hey was sold in beginning of 2019. Sýn hf. 's share (49,9%) in the new merged company is accounted for the equity method from January 1st 2019. Profit from the sale, amounting to ISK 817 million, was recorded in Q1 2019.

7. Segment reporting

The Company defines its segments based on internal reporting to the chief operating decision maker. Based on that the Company is defined as one operating segment.

8. Accounting treatment of interest rate swap

The Company settled its interest rate swap during the quarter. The interest swap was established in 2016 as a cash flow hedge against its long-term loans. Due to this settlement, ISK 120 mill. was expensed amongst interest expense in the Income Statement. The cash flow effect of the settlement was ISK 98 mill.

Notes, continued.:

9. Net sales

	2019	2018	2019	2018
	Q3	Q3	9M	9M
Sales of goods and service is specified as follows:				
Sales of goods	255	257	780	796
Sales of service	4,623	4,886	14,096	14,533
Total sales of goods and service	4,878	5,143	14,876	15,330

Revenue

The Company's operation is divided in to six revenue sources which are different by nature. The revenue sources are:

Media: Revenue from the operation of broadcast media, TV subscriptions, advertisement, distribution systems, set-top boxes, TVOD, SVOD and PPV.

Broadband: Revenue from internet service in fixed-line networks, including fiber optic cables, xDSL service and other data connections.

Mobile: Revenue for use of cell phones, including data transfer with in the mobile network, subscription revenue from individuals, prepaid sim cards, roaming revenue from travellers, interconnection revenues etc.

Fixed line: Revenue from home phone usage and corporate fixed line usage, interconnection revenue from fixed line.

Retail sale: Revenue from sale of equipment and accessories.

Other revenue: Service revenues, software revenues, outsourced work and services and other incidental income.

Revenue	Media	Broad-band	Mobile	Fixed line	Retail sale	Other revenue	Total
1.1. to 30.09.2019							
Revenue	6,288	3,629	2,877	687	780	615	14,876
Total revenue	6,288	3,629	2,877	687	780	615	14,876

Revenue	Media	Broad-band	Mobile	Fixed line	Retail sale	Other revenue	Total
1.1. to 30.09.2018							
Revenue	6,518	3,666	2,935	850	796	565	15,330
Total revenue	6,518	3,666	2,935	850	796	565	15,330

Notes, continued.:

10. Cost of goods sold and services

Cost of goods sold and services is specified as follows:	2019 Q3	2018 Q3*	2019 9M	2018 9M*
Cost of good sold and services	1,531	1,584	4,994	5,129
Salaries and related expenses	495	480	1,628	1,523
Depreciation and amortization	1,107	1,049	2,870	2,624
Total cost of goods sold and services	3,133	3,112	9,491	9,275

*The amounts for 2018 has been restated due to a change in accounting policy of broadcasting licence rights, see further in note 5.

11. Operating expenses

Operating expenses are specified as follows:	2019 Q3	2018 Q3	2019 9M	2018 9M
General and administrative expenses	299	330	911	1,218
Sales and marketing expenses	136	142	379	423
Salary and related expenses	794	822	2,865	2,786
Depreciation and amortization	330	262	995	762
Total operating expenses	1,559	1,557	5,150	5,188

12. Depreciation and amortization

Depreciation and amortization are specified as follows:	2019 Q3	2018 Q3*	2019 9M	2018 9M*
Depreciation of fixed assets	315	291	937	853
Amortization of intangible assets	207	205	621	607
Depreciation of right-of-use assets	118	-	360	-
Amortization of license rights	797	814	1,947	1,926
Total depreciation and amortization	1,437	1,311	3,865	3,386

*The amounts for 2018 has been restated due to a change in accounting policy of broadcasting licence rights, see further in note 5

13. Inventories

Inventories are specified as follows:	30.9.19	31.12.2018*
Equipment for resale	346	231
Supplies	69	133
Total inventories	415	364

*The amounts for 2018 has been restated due to a change in accounting policy of broadcasting licence rights, see further in note 5

Notes, continued.:

14. Other matters

The Company is engaged in legal proceedings against companies and supervisory authorities in the Icelandic telecommunication and media market. The Company recognizes obligations due to such legal proceedings in its financial statements once future payments and other benefits can be evaluated in a reliable manner. Due to uncertainties regarding future development of legal proceedings, judicial decisions, rulings, appeals and settlements, the outcome can lead to additional commitments and costs for the Company. The following are the main changes into Company's litigation since year end 2018.

Sýn vs. Síminn and counterclaim

The Company filed a petition for damages against Síminn hf. for unlawful margin squeeze, claiming damages in the amount of over ISK 900 million. Síminn filed a counterclaim in the amount of ISK 2,500 million. Recently the District Court acquitted both parties. The District Court made the ruling on the grounds that neither party could provide sufficient proof of damages. In order to establish the damages incurred, the Company appealed the ruling to the National Court with a petition issued on 21 December 2018 requesting that all of Sýn's claims should be considered. As a secondary claim, the court is requested to estimate the amount of damages. Síminn has made a counterclaim and again requests an amount of ISK 2,500 from the Company.

The main case proceedings took place in the National Court 1st of November and judicial results can be expected in the last quarter of 2019.

Síminn vs. PTA, Sýn hf. and Gagnaveita Reykjavíkur ehf. and Míla ehf., and counterclaim

Síminn hf. has filed a claim against the PTA, the Company, Gagnaveita Reykjavíkur ehf. and Míla ehf., for the annulment of the decision of the PTA no. 10/2018. According to that decision Síminn hf. was found to breach paragraph 5 of Article 45 of the Media Act, subject to 9 mill. ISK administrative fine. The case was filed before the District Court of Reykjavík on 9 October 2018. The company issued a counterclaim on 4 December 2018 and claimed damages. With a ruling of 15 May 2019 Sýn's counterclaim was dismissed on procedural grounds.

Sýn has reclaimed Síminn and requests an amount of ISK 1,141 mill. plus penalty interest. The court has appointed experts to evaluate and the court awaits their results.

Síminn hf. vs. Sýn hf.

Síminn has initiated court proceedings and made claims for damages for loss it maintains has occurred in relation to alleged copyright breaches as regards TV content in the period from 1 October 2015 to 16 December 2015. The claim amounts to ISK 555 mill. for financial damages and ISK 10 mill. for other damages, plus interests. In addition there is a claim for cost of the court proceedings.

Currently, the Company is unable to evaluate future obligations or claims that may result from the above legal proceedings, amongst other, due to it being time consuming to obtain a final ruling in such cases, as well as the fact that it may change in time. Accordingly, neither an obligation nor a claim has been entered in the Company's annual accounts. Other matters should be read in the context of the Company's annual financial statement for 2018.