Sýn hf.

Consolidated financial statements

2018

This document includes an English translation of certain part of Sýn hf. consolidated financial statements for the year 2018. If there is a discrepancy between the English translation and the related parts that are translated from the Icelandic consolidated financial statement, the Icelandic version shall prevail.

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Report by the Board of Directors and CEO

Sýn hf. is a fully convergent 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 service 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.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional requirements in Icelandic laws and rules for listed companies. The consolidated financial statements consist of the financial statement of Sýn hf. and its subsidiaries, P/F Hey in Faroe Islands (prior P/F Kall) and share in joint operation of Sendafelagid ehf.

Sýn hf. and the Faroese company Tjaldur agreed in November 2018 on head of terms in a merger of P/F Hey, the Faroese subsidiary of Sýn hf. and Nema a subsidiary of Tjaldur. The combined company will be a leading information and communication company in the Faroe Islands with multiple income streams from its customer base. The merger will realize cost synergies and unlock potential for further value creation through extended product supply to the enterprise information and communication market.
Sýn hf., which owns prior to the transaction all of the share capital in P/F Hey, will hold 49.9% share in the merged business and Tjaldur 50.1%. After the transaction Sýn hf. share in the merge company will be accounted for under the equity method and therefore P/F Hey will no longer be consolidated into the financial statements of Sýn hf. Assets and liabilities of P/F Hey have been classified as held for sale in the balance sheet in accordance with the requirement of IFRS 5, Non-current assets held for sale and discontinued operations. The operation of P/F Hey has not been presented as discontinued operation in the income statement as it is not estimate material for the operation of the group. Information about discontinued operations can be found in note 12.

The Company acquired the operation and specific assets of 365 midla hf. as at 1. of December 2017. The acquisition has an effect on the comparative amounts in the consolidated financial statements as only one month of the acquired operation is included in the income statement for the year 2017. The year 2018 is affected by this merger as both cost and investment related to merger was higher than originally estimated. Profit of the year was lower than expected, reasons are both higher cost and lower revenues as well as economic changes related to the weakening of the Icelandic krona and increase competition in the communications and media market.

Operation and financial position in the year 2018

According to the income statement revenues of the group from goods sold and service provided amounted to 21,951 mill. kr. (2017: 14,268 mill. kr.). Profit of the group in the year amounted to 473 mill. kr. (2017: 1,086). Total comprehensive income amounted to 577 mill. kr. (2017: 1,032 mill. kr.). According to the balance sheet, asset of the group amounted to 27,011 mill. kr. (2017: 25,496 mill. kr.). The equity of the group as at 31. December 2018 amounted to 10,707 mill. kr. (2017: 10,131 mill. kr.) and the equity ratio was 39.6% (2017: 39.7%), thereof equity amounted to 2,964 mill. kr. (2017: 2,964 mill. kr.).

Non-financial informations

Information about non-financial information are included as an appendix in the consolidated financial statement on page 48 (icelandic version).

Share capital and article of association

Share capital issued at year end amounted to 2,964 mill. kr. Each share nominal value is 10 Icelandic krona. All the share capital is in the same class of share and registered on Nasdaq Iceland. All share have the same rights attached. The shareholders of the Company have the right to dividend based on its proportion to their shareholding when dividend is declared.

It is the Companies policy to pay shareholders dividend and/or acquire own share for an amount that represent 30-60% of profit before tax, in accordance with laws and regulation effective at each time. When the Board is preparing a proposal for the declaration of dividend and/or acquisition of own share, it shall take into account the Companies treasury policy, market conditions and the investment need of the Company.

The Board of Directors does not recomment payment of dividends to shareholders for the year 2018. As regards to changes in the equity of the Company, the Board refers to the notes to the consolidated financial statements.

Report by the Board of Directors and CEO, cont.:

Shareholders in the year end 2018 were 230 (2017: 196). The following are the 10 biggest shareholders in the Company at year end 2018:

Name	Shares 31.12.2018 (´000)	Share in % 31.12.2018
Gildi - lífeyrissjóður	39,596	13.4%
Lansdowne Partners Limited	36,094	12.2%
Lífeyrissjóður verslunarmanna	31,822	10.7%
Ursus ehf.	23,647	8.0%
Birta lífeyrissjóður	18,925	6.4%
Lífeyrissjóður starfsmanna ríkisins A deild	18,000	6.1%
Stapi lífeyrissjóður	14,629	4.9%
Kvika banki hf.	12,650	4.3%
Landsbankinn hf.	11,786	4.0%
Festa - Lífeyrissjóður	11,740	4.0%
	218,890	73.8%
Other shareholders	77,551	26.2%
Total shares	296,441	100.0%

The Company has no treasury shares at year end 2018. Further information about the share capital of the Company can be found in note 24. Additional information about the Companies shareholders can be access on Sýn hf. webpage www.syn.is

Corporate Governance

The Boards of directors is focused on practicing good Corporate Governance and follow the guidelines issued on Corporate Governance by the Iceland Chamber of Commerce, SA-Business Iceland and Nasdaq Iceland on June 2015. The guidelines is assessable on the Iceland Chamber of Commerce webpage www.vi.is. The Companies share are registered on Nasdaq Iceland and according to the rules of the stock exchange the Company is required to follow the above mentioned guidelines.

The Icelandic Center of Corporate Governance acknowledge Sýn hf. as a "Company with excellence in corporate governance". Sýn hf. has received this acknowledgement before in the years 2014, 2015, 2016 and 2017.

In relation to the preparation of the consolidated financial statement the operating effectiveness of internal control is tested, risk estimated, user access reviewed as well as the definition of responsibility. The Board of directors receives on a regular basis information about the financial operation of the Company, down to revenues streams and departments. The Audit Committee of the Company meets on a regular bases and review among other the main risk related to internal control

Further information about the Board and Corporate Governance can be found in appendix to this consolidated financial statements on page 43 (icelandic version)

Report by the Board of Directors and CEO, cont.:

Statement by the Board of Directors and CEO

According to the best of knowledge of the Board of Directors and the CEO, the consolidated financial statements of Sýn hf. are prepared and presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in Icelandic laws and rules for listed companies. It is Board of Directors and CEO opinion that these consolidated financial statements give a true and fair view of the consolidated financial performance of Sýn 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 the opinion of the Board of Directors and the CEO, the consolidated financial statements and the report by the Board of Director and the CEO gives a fair view of the development and performance of groups operations and its position and describes the principal risks and uncertainties faced by the group.

The Board of Directors and the CEO of Sýn hf. have today discussed the consolidated financial statements for the year 2018 and confirm them by means of their signatures.

Reykjavík, 27. febrúar 2019

The Board of Directors

Heiðar Guðjónsson

Anna Guðný Aradóttir

Hjörleifur Pálsson

Tanya Zharov

Yngvi Halldórsson

CEO

Stefán Sigurðsson

Key Figures

	2018	2017	Change %
Financial information			
Revenues	21,951	14,268	53.9%
Operating profit	1,203	1,550	(22.4%)
Profit before tax	475	1,176	(59.6%)
Profit	473	1,086	(56.4%)
Earnings per share	1.6	4.1	(60.8%)
Investments in continued operations	2,407	1,664	44.7%
Purchase of operations and assets	42	6,193	(99.3%)
Cash generated by operations	2,081	2,150	(3.2%)
Performance evaluation			
EBITDA for the period	3,248	3,137	3.5%
EBITDA ratio for the period	14.8%	22.0%	(32.7%)
Free cahs flow* of continued and discontinued operations	341	805	(57.7%)
Net interest bearing debt	11,205	11,033	1.6%
Net interest bearing debt/EBITDA **	3.4	3.5	(1.9%)

*Free cash flow consists of cash from operations before interest and income tax minus investment activities. The purchase of operations and shares and cash equivalents classified for sale is excluded as it is not related to the groups reinvestment needs.

** EBITDA for the last 12 months

Consolidated financial statement of Sýn hf. 6 Amounts are in ISK millions.

Independent auditor´s report

To the Shareholders and the Board of Directors of Sýn hf

Opinion

We have audited the consolidated financial statements of Sýn hf. for the year ended December 31, 2018 which comprise, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Sýn hf. as at December 31, 2018, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in Icelandic laws and rules for listed companies.

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 Sýn hf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and Icelandic Institute of State Authorized Public Accountants, Code of Ethics (FLE Code) and we have fulfilled our 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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 our audit
Revenue recognition	
The Companies revenue recognition systems are complicated and process a large number of transactions in many systems Revenue recognition is one of key audit matters in the audit of the financial statements due to the large number of transactions and complicated recognition in the revenue recognition system Further information about the revenue recognition can be found in note 7 and note 36a.	Our audit procedures were designed to evaluate the design, implementation and functionality of automatic controls related to revenue recognition as well as we preformed substantive audit procedures to verify the accuracy and completeness of the recognised revenues. This audit work included among other things: · The computer and information systems used for revenue recognition were evaluated and tested as well as testing of other significant controls in the revenue recognition process. · Testing of flow between the revenue systems and the finance system and the reconciliation process performed. · Examination of employee access in the information systems related to revenue recognition and the process of change management. · Substantive analytical procedures to test the revenues recognition.

Independent auditor´s report cont.:

Key Audit Matters	How the matter was addressed in our audit
Goodwill	
At year end, the Company's goodwill amounted to 10,6 billion Icelandic Krona. The goodwill is related to acquisition and mergers of companies in the telecommunication industry in Iceland and the Faroe islands and in relation to the acquisition of the operation of 365 midla hf. The estimate of the recoverable amount of goodwill is based on management estimate about the assumptions used in the future cash flow of the relevant cash generated unit as other assumptions used in the estimate. As the goodwill is a significant part of the balance sheet of the Company and depends on management assumptions it is a key audit matters. No impairment has been recognised in the years 2016-2018. Further information about goodwill can be found in note 18 and 37i in the financial statements.	In our audit we and our internal valuation specialist evaluated the assumptions used in management impairment testing. We reviewed management methodology used and changes between years, if any. The audit work included amount other things: · The calculation model was evaluated and its functionality tested. · Key assumptions for projected cash flows and operating budgets were reviewed. · Review of management budget accuracy were reviewed. · Key assumptions regarding cost of capital were reviewed and evaluated. WACC assumptions were compared to market related assumptions. In relation to this work we reviewed the accuracy of the final purchase price allocation related to the acquisition of 365 midla hf., and the changes from the provisional purchase price allocation performed in 2017. We tested the methodology used in the impairment test as well as the information provided in the notes related to goodwill were appropriate.

Other information

The Board of Directors and the CEO are responsible for the other information. The other information comprises the report of board of directors, statement of corporate governance, non-financial information's and information about quarterly financial performance.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except the confirmation regarding report of the board of directors as stated below.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Icelandic consolidated financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the board of directors includes all information required by the Icelandic financial Statement Act that is not disclosed elsewhere in the consolidated financial statements.

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

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic financial Statement Act, and for such internal control as the Board of Directors and the CEO determines 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 the CEO are responsible for assessing Sýn hf.'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 the Board of Directors and the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Consolidated financial statement of Sýn hf. 8 Amounts are in ISK millions.

Independent auditor´s report cont.:

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

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic financial Statement Act, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism 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 Sýn hf.'s internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate 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 the 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 the Audit Committee a statement that we have complied with relevant ethical requirements regarding independence, and to 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 the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period 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.

Reykjavík, 27th February 2019.

Deloitte ehf.

Jóhann Óskar Haraldsson

State Authorized Public Accountant

Consolidated Income Statement

	Notes	2018	2017
Net sales	7	21,951	14,268
Cost of sales	8	(13,556)	(7,829)
Gross profit		8,395	6,439
Operation expenses	9	(7,192)	(4,889)
Operation profit		1,203	1,550
Finance income		57	48
Finance cost		(785)	(422)
Net financial items	11	(728)	(374)
Profit before tax		**475**	**1,176**
Tax	20	(2)	(90)
Profit for the period		**473**	**1,086**
Earning per share	25	1.6	4.1
Diluted earnings per share	25	1.6	4.1

Consolidated Statement of Comprehensive income

	2018	2017
Profit for the period	473	1,086
Items that may subsequently be reclassified to the income statement		
Translation difference of foreign operations	46	31
Cash flow hedges	58	(85)
Total comprehensive income for the period	**577**	**1,032**

Notes on pages 14-32 are an integral part of the consolidated financial statements

Consolidated financial statement of Sýn hf. 10 Amounts are in ISK millions.

Consolidated Statement of Financial Position

	Notes	31/12/2018	31/12/2017
Non-current assets			
Property, plant and equipment	14	4,785	4,902
Intangible assets	18	15,454	15,605
Share in affiliates and other companies		48	16
Total non-current assets		**20,287**	**20,523**
Current assets			
Inventories	22	1,909	1,510
Accounts receivables	23	3,403	3,146
Cash and chash equivalents		356	317
Current assets of continuing operations		5,668	4,973
Assets classified for sale	12	1,056	0
Total current assets		**6,724**	**4,973**
Total assets		**27,011**	**25,496**
Equity			
Share capital		2,964	2,964
Reserves		2,465	2,465
Other statutory reserve		(1)	(17)
Cash and cash equivalents		5,279	4,719
Total equity	24	**10,707**	**10,131**
Non-Current liabilities			
Borrowings	26	10,874	10,732
Deferred tax liabilities	21	138	193
Total non-current assets		**11,012**	**10,925**
Current liabilites			
Interest bearing liabilites	26	687	618
Accounts payable and other liabilities	27	4,167	3,822
Current liabilities of continuing operations		**4,854**	**4,440**
Liabilities connected to assets classified for sale	12	438	0
Total current liabilities		**5,292**	**4,440**
Total liabilities		**16,304**	**15,365**
Total liabilities		**27,011**	**25,496**

Notes on pages 14-32 are an integral part of the consolidated financial statements

Consolidated financial statement of Sýn hf. 11 Amounts are in ISK millions.

Consolidated Statement of Changes in equity

	Share Capital	Reserves	Translation Differance	Other statutory reserve	Cash Flow Hedges	Retained earnings	Total equity
2017							
Total equity 1.1.2017	2,640	678	33	53	(84)	3,667	6,987
Profit of the year	-	-	-	-	-	1,086	1,086
Translational differance of subsidaries	-	-	31	-	-	-	31
Cash flow hedges	-	-	-	0	(85)	0	(85)
Total profit during period	0	0	31	0	(85)	1,086	1,032
Own shares	85	466	-	-	-	-	551
Incrase of shares	239	1,321	-	-	-	-	1,560
Profit of subsidaries in excess of dividend recived	-	-	-	34	0	(34)	0
Total equity 31.12.2017	**2,964**	**2,465**	**64**	**87**	**(169)**	**4,719**	**10,131**
2018							
Total equity 1.1.2018	2,964	2,465	64	87	(169)	4,719	10,131
Total profit during period	-	-	-	-	-	473	473
Translational differance of subsidaries	-	-	46	-	-	-	46
Cash flow hedges	-	-	-	-	58	-	58
Total profit for the year	0	0	46	0	58	473	577
Profit of subsidaries in excess of dividend recived	-	-	-	(87)	-	87	0
Total equity 31.12.2018	**2,964**	**2,465**	**110**	**0**	**(111)**	**5,279**	**10,707**

Notes on pages 14-32 are an integral part of the consolidated financial statements

Consolidated financial statement of Sýn hf. 12 Amounts are in ISK millions.

Consolidated Statement of Cash flow

	Skýr.	2018	2017
Operating profit		473	1,086
Operational items not affecting cash flow:			
Depreciation	15	2,045	1,587
Gain of sale of fixed assets	11	728	374
Tax	20	1	90
Cash generated from operating activities		**3,247**	**3,137**
Change in current assets and liabilities			
Change in inventories		(483)	27
Change in operating assets		(612)	(781)
Changes in operating liabilities		530	258
Change in pre-collected income		66	(172)
Net Cash from operations before interest and tax		**2,748**	**2,469**
Interest income recieved		58	48
Interest income paid		(723)	(365)
Payments of taxes		(2)	(2)
Net cash from operating activities		**2,081**	**2,150**
Investing activities			
Investment in property, plant and equipment		(42)	(6,193)
Investment in fixed assets	14	(1,658)	(1,135)
Investment in intangible assets	18	(749)	(529)
Investment activities		**(2,449)**	**(7,857)**
Financing activities			
Hedges		40	18
New borrowings		8,999	4,661
Payment of non-current liabilities		(8,585)	(421)
Operating loan		(10)	1,401
Financing activities		**444**	**5,659**
Change in cash and cash equivalents		76	(48)
Cash and cash equivalents classified for sale		(34)	-
Effect of exchange rate fluctuations on cash held		(3)	(3)
Cash and cash equivalents at the beginning of the period		317	368
Cash and cash equivalents at the end of period		**356**	**317**

Notes on pages 14-32 are an integral part of the consolidated financial statements

Consolidated financial statement of Sýn hf. 13 Amounts are in ISK millions.

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 consolidated financial statements of the Company incorporates the financial statements of the parent company and its subsidiaries, P/F Hey in Faroe Islands (prior P/F Kall) and share in joint operation of Sendafelagid ehf, which are referred to as "the Group". P/F Hey has been classified as held for sale in accordance with the requirements of IFRS 5, Assets held for sale and discontinued operations. See further in note 12.

2. Summary of Significant Accounting Policies

a. Basis of preparation

The consolidated financial statements in have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional requirements in Icelandic laws and rules for listed companies.

The Board of Directors and the CEO confirmed the consolidated financial statement on 27. February 2019.

The Groups accounting policies and changes thereto done in the year is described in note 37. (icelandic version)

b. Critical accounting judgments and key sources of estimation uncertainty

In the making of the consolidated financial statements, the management, in accordance with accounting standards, need to make decisions, estimate and draw conclusions which affect assets and liabilities at the reporting date, information in the notes and income and cost. All conclusions and estimates are based on knowledge and experience and other relevant factors and make up the basis for decisions made on book value of assets and liabilities which can not be ascertained by any other mean.

3. Functional and presentation currency

The consolidated financial statements are presented in Icelandic krona, which is the presentation currency of the Group. All amounts are rounded to the nearest million, except when otherwise indicated.

4. Adoption of new and revised Standards

Two new accounting standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contract with Customers were effective from 1. January 2018. The Group has not implemented standards, interpretation or amendments to standards that are not yet effective. From 1. January 2019 a new standard IFRS 16 Leases will be effective, management estimate of the effects of the transition to the new standard are described below. Effect of other standards and interpretation that are not yet effective are estimated none or immaterial.

a. IFRS 9

IFRS 9 supersedes IAS 39 and includes new requirements for recognition and measurement of financial instruments, impairment, derecognition and hedge accounting.
The transition to the new standard mainly affects impairment of financial assets in relation to the new impairment model. Those effects have though been estimated as immaterial. The transition to the new standard did not affect classification of assets or liabilities in the balance sheet at the beginning of the period. The Group decides to continue to apply the hedge accounting requirements of IAS 39. Further information about the accounting policies for financial instruments can be found in note 37(g) and (k).

b. IFRS 15

IFRS 15 supersedes IAS 18, IAS 11 and related interpretations. The standard includes new requirements for revenue recognition and increased requirements for disclosures. According to the standards revenues shall be recognised when the control over the sold goods or service has been transferred to the buyer, which is different from the old standards were revenue recognition was based on the transfer of risk and rewards. The standard introduces a 5-step approach for revenue recognition.

Revenue from the telecommunication and media subscriptions are recognised in accordance with the transfer of service each month. Revenues from advertising are recognised in accordance with the publication schedule of the advertising. Revenues from goods sold are recognised when the controls of the goods have been transferred to the buyer. The transition of the new standard did not have material effect on the revenue recognition of the Group nor did it lead to changes to assets or liabilities recognised in the balance sheet 1. January 2018. Further information about accounting policies related to revenue recognition can be found in note 37(b).

Notes, cont.:

4. Adoption of new and revised Standards cont.:

c. IFRS 16

IFRS 16 provides a single lessee accounting model to account for lease agreement in the financial statements of both the lessee and the lessor. At its effective date IFRS 16 succeeds the current requirements in IAS 17 and related interpretations. IFRS 16 distinct between a lease and service agreement on the basis that if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The standard removes the difference in accounting treatment between finance lease (on balance sheet) and operation lease (off balance sheet) under IAS 17 and introduces a single lessee accounting model, requiring lessees to recognise right of use assets and lease liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. In addition IFRS 16 requires extensive disclosure for lease agreements. The standard applies to annual reporting periods beginning on or after 1 January 2019.

At transition date the Company will recognised in its balance sheet lease liability and right of use assets for lease agreements that were classified as operating lease under the previous standard.
Classification of expense related to lease agreement will changes as the Group will recognize depreciation of the right of use asset and finance expense related to the lease liability. Because of that the implementation of the standards will affect performance indicators like EBITDA, EBIT etc. Before the implementation of the standard the Group has recognised operating lease payment on a straight line basis over the life of the agreements and asset or liabilities has only been recognised if there is a timing difference between the lease payment and the recgonised expense.
Based on current information, it is management estimate that the transition to IFRS 16 will have the effect that a lease liability in the range of 3.4 - 3.6 millj. kr will be recognised and a right of use assets in the range of 3.0 – 3.6 millj. kr. Management have not fully decided on the implementation approach of the new standards and therefore the effects are disclosed on a range.

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease according to IAS 17 and IFRIC 4.

d. Fair value estimate

Part of the accounting policies and disclosures of the Group requires a fair value estimate, both with regards to financial instruments as well as other assets and liabilities.

The Group used market assumptions whenever they are available but if they are not available management judgement is used. If information from third party, like brokers or valuation service, are used to estimate fair value, management used that information to support the conclusion that the estimate fulfills the requirements of International Financial Reporting Standards (IFRS) and among that the fair value hierarchy level it relates to.

Fair value is classified in three stages based on the assumption that are used in the estimate:

- Level 1, is based on a quoted prices for similar instruments.
- Level 2, is based on directly observable market inputs other than Level 1 inputs.
- Level 3, is based on inputs not based on observable market data.

Further information about assumptions used in estimating fair value can be found in note 28 about risk management.

Notes, cont.:

5. Accounting treatment of interest rate swap

The Company entered into a derivative agreement to manage the risk related to interest risk exposure i.e. interest rate swap. Derivative are measured on fair value. The general rule is that unrealized gain or loss is recognised in the income statements except when the derivative is designed as a hedging instrument in hedge accounting. The treatment of the fair value changes of the derivative depends on the hedging relationship. The Company has design the derivative as a hedging instrument in a cash flow hedge. Derivative agreements are classified among long term assets or long term liabilities if there is more than 12 months until maturity date of the agreement. Other derivative agreements are classified among current assets or liabilities.

a. Hedge accounting

The Group has defined interest rate swaps as cash flow hedge related to interest risk exposure. In the beginning of the hedging relationship the Group documents the objective and strategy of the hedge and the relationship between the hedging instruments and the hedge item. The Group estimates and documents the effectiveness of the hedging relationship based on the requirements of IAS 39, both in the beginning of the hedging relationship and on ongoing basis. The Group still applies the requirement of IAS 39 for hedge accounting in accordance with the permission in IFRS 9.

If the hedging relationship does not fulfill the effective requirements of IAS 39 the hedge accounting is discontinued. The cumulative amount included in equity is reclassified to profit or loss.

The effective part of the hedging relationship is recognised in other comprehensive income. Hedge ineffectiveness is recognised in profit or loss. The cumulative amount recognised in equity is reclassified to the same line in the income statement as the hedge item is classified in.

b. Cash flow hedge

The effective part of the cash flow hedge is recognised within other comprehensive income. Profit of loss related to ineffectiveness in the hedging relationship is recognised within finance expense. The cumulative balance in equity is reclassified to the income statement at the same time as the profit or loss of the related hedge item. The amounts are recognised in the same line in the income statement.

6. Segment reporting

The Group defines its segments based on internal reporting to the chief operating decision maker. Based on that the Group is defined as one operating segment. The geographical segment of the Group is descripted below.

Geographical segments

Revenues of the Group are seperated down to geograpical segment in the following way:

2018	Iceland	Faroe Islands	Total
Revenues from third party	20,669	1,282	21,951
EBITDA of the year	3,062	186	3,248

2017	Iceland	Faroe Islands	Total
Revenues from third party	13,019	1,249	14,268
EBITDA of the year	2,979	158	3,137

Consolidated financial statement of Sýn hf. 16 Amounts are in ISK millions.

Notes

7. Net sales

Sales of goods and service is specified as follows	2018	2017
Sales of goods	1,485	1,320
Sales of service	20,467	12,948
Total sales of goods and servic	**21,951**	**14,268**

Revenue Sources

Revenue sources are published by the natrue of operations and are based on the organization and internal information of the consolidated operation. See note 37 (b)

The consolidated operation is divided in to six revenue sources which are different by nature. The revenue streams 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, subscribtion revenue from individuals, prepaid sim cards, roaming revenue from travelers, interconnection revenues etc.

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

Retail sale: Revenue from sale of telecommunications equipment and accessories.

Other revenue: Service revenues and rental of terminal equipment

Revenue source	Media	Broad-band	Mobile	Fixed line	Retail sale	Other revenue	Consolidated adjustments	Total
1.1. to 31.12.2018								
Third party revenure	8,812	5,008	4,515	1,131	1,485	1,000	-	21,951
Internal revenue	0	0	(2)	20	0	67	(85)	-
Total revenue	**8,812**	**5,008**	**4,513**	**1,151**	**1,485**	**1,067**	**(85)**	21,951

Revenue source	Media	Broad-band	Mobile	Fixed line	Retail sale	Other revenue	Consolidated adjustments	Total
1.1. to 31.12.2017								
Third party revenure	2,824	3,975	4,179	1,213	1,320	757	-	14,268
Internal revenue	-	-	(17)	21	-	55	(59)	-
Total revenue	**2,824**	**3,975**	**4,162**	**1,234**	**1,320**	**812**	**(59)**	**14,268**

Consolidated financial statement of Sýn hf. 17 Amounts are in ISK millions.

Notes, cont.:

8. Cost of goods sold and services

Cost of goods sold and services is specified as follows:	2018	2017
Cost of goods sold and services	10,357	6,009
Salaries and related expenses	2,120	830
Depreciation	1,079	990
Cost of goods sold and services	**13,556**	**7,829**

9. Operating expenses

Operating expenses are specified as follows:	2018	2017
Office- and managing expenses	1,725	1,299
Sale- and marketing expenses	590	381
Salaries and related expenses	3,912	2,612
Depreciation	966	597
Operating expenses	**7,192**	**4,889**

10 Salaries and related expenses

Salaries and related expenses are specified as follows:	2018	2017
Salaries	4,928	2,820
Pension fund expenses	602	296
Other salary related expenses	503	326
Salaries and related expenses	**6,032**	**3,442**
Average full-time equivalents during the period	582	353

At year end 2018 59% of managers were male and 41% were female (2017: 70% / 30%). Total number of employees was 619, (2017: 640), 61% male og 39% female (2017: 68% / 32%).

11 Financial income and expenses

Financial income and expenses are specified as follows:	2018	2017
Interest income from loans and receivables	45	35
Other interest income	12	13
Total financial income	**57**	**48**
Interest expense and other service charges	(751)	(403)
Exchange rate loss	(34)	(19)
Total financial expenses	**(785)**	**(422)**
Total financial items	**(728)**	**(374)**

Consolidated financial statement of Sýn hf. 18 Amounts are in ISK millions.

Notes, cont.:

12 **Discontinued operatons**

In November of 2018 Sýn and the Faroese Company Tjaldur reached an agreement on the head of terms in a merger of P/F Hey a subsidiary of Sýn, and Nema a subsidiary of Tjaldur. Sýn, that has prior to the transaction 100% of Hey's equity, will hold 49,9% of the merged business and Tjaldur will own 50,1%. Sýn will subsequently account for its share in the merged business in accordance with the equity method of accounting. The effect of P/F Hey on consolidated income are considered immaterial and therefore the income statement is presented on a consolidation basis and P/F Hey's net results not presented as discontinued operations. The assets and liabilities of P/F Hey are presented seperately in the Consolidated Statement of Financial Position in accordance with the requirements of IFRS 5. Assets and liabilities in a disposal group, classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. In the case of P/F Hey, the carrying amount was lower.

Main results in 2017 and 2018 of discontinued operations are as follows:

Income statement	**2018**	**2017**
Income	1,282	1,249
Fees	(1,247)	(1,208)
Profit before income tax	36	41
Income tax	(6)	(8)
Profit from discontinued operations	**30**	**34**

Assets 31.12.2018		
Property, plant and equipment	513	-
Intangible assets	160	-
Inventories	89	-
Accounts receivables and other assets	260	-
Cash and Cash equivalents	34	-
Total assets	**1,056**	**-**

Liabilities 31.12.2018		
Interest bearing liabilities	141	-
Deferred tax liabilities	59	-
Interest bearing liabilities	37	-
Account payables and other liabilities	201	-
Total liabilities	**438**	**-**

Net assets 31.12.2018	**618**	**-**

Cash flow statement	**2018**	
Operating activities	261	171
Investing activities	146	(133)
Financing activities	(356)	(33)
Net cash flow	**51**	**5**

13. **Commission to auditors**

	The groups auditors		**Other auditors**	
Services provided are specified as follows:	**2018**	**2017**	**2018**	**2017**
Auditing	18	18	-	-
Other services	23	13	14	6
Total commission to auditors during the period	**41**	**31**	**14**	**6**

Consolidated financial statement of Sýn hf. 19 Amounts are in ISK millions.

Notes, cont.:

14. Property, plant and equipment

Property, plant and equipment is specified as follows:

	Property	Tele-com. Equipment	Appliances automobiles & Interiors	Broad-casting Equipment	Total
Cost					
Total cost 1.1.2017	50	14,157	1,434	0	15,641
Reclassification and fully depr. assets	1	(1,293)	(244)	-	(1,536)
Additions during the year	-	829	430	283	1,542
Exchange rate influence	-	76	4	-	80
Total cost 31.12.2017	51	13,769	1,624	283	15,727
Reclassification and fully depr. assets		(197)	(51)	-	(248)
Additions during the year		1,062	428	167	1,658
Sold and discontinued during the year		(52)	(9)	-	(61)
Exchange rate influence		104	6	-	110
Discontinued operations eliminated		(1,511)	(118)	-	(1,629)
Total cost 31.12.2018	**51**	**13,174**	**1,881**	**450**	**15,557**
Depreciation and impairment					
Depreciation 1.1.2017	21	10,006	1,136	-	11,163
Reclassification and fully depr. assets	(4)	(1,297)	(236)	-	(1,537)
Depreciatoions during the year	2	988	130	6	1,124
Sold and discontinued during the year	-	-	-	-	0
Exchange rate influence	-	70	5	-	75
Total depreciation 31.12.2017	19	9,767	1,035	6	10,825
Reclassification and fully depr. assets	-	(189)	(51)	-	(240)
Depreciations during the year	2	962	209	78	1,251
Sold and discontinued during the year	-	(47)	(6)	-	(53)
Exchange rate influence	-	113	(8)	-	104
Discontinued operations eliminated	-	(1,017)	(99)	-	(1,116)
Total depreaciation 31.12.2018	**21**	**9,589**	**1,080**	**84**	**10,772**
Book value					
1/1/2017	29	4,151	298	-	4,478
31/12/2017	32	4,002	589	277	4,902
31/12/2018	**30**	**3,585**	**801**	**366**	**4,785**
Depreciation ratio	3%	5-33%	15-33%	14-25%	

15. Depreciation

Depreciation in the income statement are specified as follows:	2018	2017
Depreciation of property, plant and equipment, cf. note 14	1,251	1,124
Depreaciation of intangible assets, cf. note 18	794	463
Deprecitaion moved to income statement	**2,045**	**1,587**

Depreciation of operating items

Depreciation of operating items are specified as follows:	2018	2017
Cost of goods and services sold	1,079	990
Other operating costs	966	597
Deprecitaion moved to income statement	**2,045**	**1,587**

Consolidated financial statement of Sýn hf. 20 Amounts are in ISK millions.

Notes, cont.:

16. **Real estate and insurance value**

At 2018 year-end the book value of the Group's real estate amounted to 30 million ISK (2017: 32 million), the official real estate value amounted to 60 million ISK (2017: 50 million) and the insurance value amounted to 64 million ISK (2017: 60 million). The insurance value of other property, plant and equipment amounted to 6,950 million ISK at 2018 year-end (2018: 6,525 million).

17. **Assets pledged as security**

The Group's assets are pledged in the amount of 5,650 million ISK (2017: 5,500 million) to secure borrowings of Sýn from Landsbankinn at 2018 year end. The following assets are pledged; all liquid assets, including vehicles, telecommunications equipment, leases, right-of-use agreements , inventory, accounts receivable and brands

18. **Intangible assets**

Intangible assets are specified as follows:

	Goodwill	Brand and business contacts	Other intangible assets	Total
Cost				
Total cost 1.1.2017	9,058	0	4,302	13,360
Reclassification and fully depreciated assets	(258)	-	(1,012)	(1,270)
Additions during the year	-	3,293	585	3,878
Goodwill due to the acquisistion 365 media hf.	4,936	-	-	4,936
Exchange rate influence	12	-	4	16
Total cost 31.12.2017	13,748	3,293	3,879	20,920
Reclassification and fully depreciated assets	-	-	256	-
Additions during the year	-	-	749	749
Sold and discontinued during the year	-	-	(188)	(188)
Exchange rate influence	(38)	-	41	3
Discontinued operations eliminated	(224)	-	(290)	(514)
Total cost 31.12.2018	**13,486**	**3,293**	**4,447**	**20,970**
Depreciation and impairment				
Depreciation 1.1.2017	3,277	0	2,855	6,132
Reclassification and fully depreciated assets	(276)	-	(995)	(1,271)
Depreciation during the year	-	17	446	463
Exchange rate influence	26	0	(35)	(9)
Total depreciations 31.12.2017	3,027	17	2,271	5,315
Reclassification and fully depreciated assets	-	-	248	-
Depreciation during the year	-	199	595	794
Sold and discontinued during the year	-	-	(188)	(188)
Exchange rate influence	(43)	-	(1)	(44)
Discontinued operations eliminated	(145)	-	(210)	(354)
Total depreciation 31.12.2018	**2,839**	**215**	**2,717**	**5,523**
Book value				
1/1/2017	5,781	0	1,447	7,228
31/12/2017	10,721	3,277	1,607	15,605
31/12/2018	**10,646**	**3,078**	**1,730**	**15,454**
Depreciation ratio	Impair-ment test	3-11%	10-33%	

* other intangible assets comprised of software and web systems

Consolidated financial statement of Sýn hf. 21 Amounts are in ISK millions.

Notes, cont.:

18. Intangible assets cont.:

Impairment testing for cash generating units that contain goodwill

For the purpose of impairment testing, goodwill has been allocated to cash generating units as detailed below. Goodwill relating to business in the Faroe Islands was not tested for impairment as it is in the process of being sold, and the agreed upon sales price exceeds its carrying amount

The book value of goodwill is specified by area as follows:

	Goodwill	
	2018	2017
Goodwill related to products and services in Iceland	10,646	10,646
Goodwill related to products and services in Faero Islands	79	75
Total goodwill	**10,725**	**10,721**

The recoverable amount of goodwill allocated to business in Iceland was determined based on a value in use calculation that uses cash flow projections based on financial budgets covering a five year period. The recoverable amount of the Faroese business was determined by the agreed upon sales price for the CGU.

The following assumptions were used for estimating value in use:

	Iceland		Fareo Islands	
	2018	2017	2018	2017
Nominal growth of revenue 2018/2017	58.7%	(0.2%)	-	(5.9%)
Average growth of revenue 2019 to 2023/2018 to 2022	1.5%	3.0%	-	1.8%
Growth rate beyond 2023/2022 (indexed)	2.5%	2.5%	-	1.2%
Average EBITDA growth 2019 to 2023/2018 to 2022	10.4%	3.9%	-	13.1%
WACC	11.1%	9.2%	-	7.3%

Management believes that any reasonably further change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount. Goodwill relating to business in the Faroe Islands was not tested for impairment as it is in the process of being sold, and the agreed upon sales price exceeds its carrying amount

19. Joint operations

Sendafelagið ehf. is a joint operation for the telecommunication systems of Sýn hf. and Nova ehf., with each party owning 50% of the shares. Sýn recognises the assets it controls, and expenses and liabilities it incurs, and its share of income earned, in its consolidated financial statements by applying the relevant IFRSs.

20. Income tax

Active income tax is specified as follows:	2018		2017	
Profit before income tax		475		1,176
Income tax according to current tax ratio	20.0%	95	20.0%	235
Ipact of tax rates on foreign tax ares	(0.1%)	(1)	(0.1%)	(1)
Tax depreciation of purchased goodwill	(20.8%)	(99)	(10.9%)	(128)
Other items	1.5%	7	(1.3%)	(16)
Active income tax	**0.5%**	**2**	**7.7%**	**90**

Consolidated financial statement of Sýn hf. 22 Amounts are in ISK millions.

Notes, cont.:

21. Deferred tax liability

Deferred tax assets (deferred tax liability) is specified as follows:	2018 Tax asset	2018 Tax liabilities	2017 Tax asset	2017 Tax liabilities
Deferred tax assets (deferred tax liability) at year start	-	(193)	-	(103)
Income tax in the income statement	-	(2)	-	(90)
Discontinued operations eliminated	-	56	-	0
Income tax to be paid	-	0	-	2
Exchange rate influence	-	1	-	(2)
Tax liability at year end	**-**	**(138)**	**0**	**(193)**

Deferred tax assets (deferred tax liability) is specified as follows:	2018		2017	
Property, plant and equipment	-	(326)	-	(420)
Current assets	-	184	-	16
Other items	-	4	-	0
Transferable tax loss	-	0	-	211
Tax liability at year end	**-**	**(138)**	**0**	**(193)**

The group's tax asset is specified as follows:	Balance at beginning of the year	Change during the year	Balance at year end
The transferable loss for the year 2008 can be utilized until 2018	562	(562)	0
The transferable loss for the year 2009 can be utilized until 2019	494	(494)	0
	1,056	**(1,056)**	**0**

22. Inventories

Inventories at year end consist of telecommunications equipment for sale, unmounted transmitter equipment and program inventory.

Inventories amounting to ISK m 1,909 (2017: ISK m 1,510) are mortaged as collateral for loans to the Group.

Inventories are specified as follows:	2018	2017
Telecommunications equipment for resale	231	197
Telecommunications equipment (supplies)	133	14
Program inventory	1,545	1,299
Inventories at year end	**1,909**	**1,510**

Content inventory at year end is specified as follows:	2018	2017
Balance at beginning of the year	1,299	-
Purchased content material	2,139	1,467
Produced content material	397	-
Charged content inventory	(2,290)	(168)
Program inventory	**1,545**	**1,299**

Content inventories include the Group’s production and purchased exhibition rights. Content inventories are stated at their purchasing or production cost and are subject to impairment. Productions costs include salaries, purchased supplies and other direct and indirect cost. Domestic and imported content inventories are for the most part amortized on a straight line basis in the year that broadcasting commences, with any residuals amortized over a 36 month period taking to account SVOD rights. Exhibition rights for sports events are amortized in full after airing of the event, with any indirect costs expensed as they incur

The Group has off balance sheet commitments for exhibition rights of 2,100 million ISK at year end (2017: 2,170 million).

Notes, cont.:

23. Accounts receivables and other liabilities

Accounts receivables and other liabilities are specified as follows:	2018	2017
Accounts receivables	3,021	3,038
Other liabilites	461	189
Write-down of accounts receivables	(79)	(81)
Total accounts receivables and other liabilities	**3,403**	**3,146**

Change of write-down of accounts receivables is specified as follows:		
Balace at beginning of year	(81)	(160)
Starting point adjusted for discontinued operations	10	0
Change in write-down for claims that may be lost	(55)	(10)
Lost accounts receivable during the year	47	89
Accounts receivables balance at year end	**(79)**	**(81)**

Accounts receivables amounting to ISK m 3,021 (2017: ISK m 3,038) are mortaged as collateral for loans to the consolidation.

24. Equity

Share capital

Issued share capital at year-end was 2,964 million ISK (2017: 2,964 million). The nominal amount of each share is 10 ISK. Shareholders are entitled to dividends in proportion with their share at ex-dividend date. According to the Company's articles of association there are no restrictions regarding sale or transfer of shares.

Share premium

Share premium is the amount paid by shareholders above the nominal value of shares. According to the Limited Liability Company Act the Company shall retain 25% of Share Capital as statutory reserves which are restricted earnings

Translation reserve

The translation difference that arises when converting the financial statements of a foreign subsidiary into Icelandic krónur is entered in a special item among equity. If foreign operations are sold or discontinued, in part or in full, the equity item is redeemed and recognized in the income statement.

Dividend

No dividends were distributed from 2017 net results and the Board of Directors will propose to the Annual General Meeting that no dividends will be distributed from 2018 net results.

Retained earnings

In accordance with article 41 of the Icelandic Financial Statements Act the Company has transferred its accumulated share in profit of its subsidiaries in excess of dividends received to a restricted retained earnings account. The requirements came in effect on 1 January 2016.

Cash flow hedges

The Company has entered into interest rate swaps to limit its interest rate risk in accordance with risk management policies of the Board of Directors. The Company applies hedge accounting and the interest rate swaps are defined as hedging instruments for a cash flow hedge. Further information, refer to note 5.

Notes, cont.:

25. Profit per share

Profit per share is the ratio of profit belonging to the groups shareholders and weighted average number of active shares during the year. Diluted earnings per share are based on profits allocated to shareholders in the group and the weighted average number of active shares, taking into account the dilutive effects of expected issued shares on employee stock options. Diluted earnings per share are equal to earnings per share, as the company has not taken loans that are convertible into share capital or entered into stock option agreements.

Profit per share is specified as follows:	2018	2017
Profit of the year	**473**	**1,086**
Shares at beginning of the year	2,964	2,640
Effects of purchased and sold own shares	-	7
Impact of share capital increase (decrease)	-	20
Weighted average of outstanding shares during the year	2,964	2,667
Profit per share and dialuted profit per share	**1.60**	**4.10**
Earnings and diluted earnings per ISK of share capital	**0.16**	**0.41**

26. Interest bearing liabilities

Interest bearing long-term liabilities are specified as follows	2018	2017
Liabilities to financial institutions	11,561	11,350
Current maturities of borrowings	(687)	(618)
Total interest bearing long-term liabilities	**10,874**	**10,732**

Liabilities due to financing activities	2018	2017
Starting balance	11,350	5,715
Discontinued operations eliminated	(196)	0
Payments	(8,583)	(421)
New loan	8,999	4,661
Operating loan	(10)	1,401
Exchange rate differance	-	(6)
Final balance	**11,561**	**11,350**

Interest bearing long term liabilities at year end is specified by currency as follows:	2018 Interest rates	2018 Balance	2017 Interest rates	2017 Balace
Liabilities in DKK	0%	0	2.95%	196
Liabilities in ISK, non-indexed	5.7%	11,561	5.4%	11,154
		11,561		**11,350**

Payments of long-term liabilities are specified in the following years:	2018	2017
Payments in 2018	-	618
Payments in 2019	687	748
Payments in 2020	687	2,150
Payments in 2021	687	3,300
Payments in 2022	2,078	451
Payments in 2023	7,424	4,083
Total	**11,561**	**11,350**

In November of 2018 the Company refinanced its long-term debt with Landsbankinn. The new loan amounts to 8,999 million ISK and its maturity is 5,5 years. The Company´s prior debt of 8,014 million ISK was paid in full.

Consolidated financial statement of Sýn hf. 25 Amounts are in ISK millions.

Notes, cont.:

26. Interest bearing liabilities, cont.

Debt covenants

In the company's loan agreements there are obligations that the group must fulfill. The obligations relate to both certain restrictions of the groups actions without the prior consent of the lender as well as the financial ratios that the company must fulfill. At year end, the group fulfilled all the loan terms relating to its financial ratios in its operations, but an exemption was obtained from the lender regarding obligations to the maximum amount of investments per year.

Collateral

The following assets are set as collateral for the Group's borrowings: property, plant and equipment, investments in subsidiaries, bank accounts, accounts receivable and inventories, as described in note 35

27. Operating liabilities

Operating liabilities are specified as follows:	2018	2017
Accounts payable	2,672	2,416
Other short-term liabilities	1,241	1,216
Pre-collected income	254	188
Income tax to be paid	0	2
Total operating liabilities	**4,167**	**3,822**

Pre-collected income

Pre-collected income is generated by pre-paid phone usage and other pre-payments from customers.

28. Risk management

a. Overview

The Group's financial instruments are exposed to the following risk:

Credit risk

Liquidity risk

Market risk

Information on the above mentioned risks and the objectives, policies and methods applied by the Group to assess and limit the risks, are provided below. Additionally, quantitative information can be found elsewhere in the financial statements.

The Board of Directors of Sýn is responsible for implementing and monitoring risk management strategies for the Group.

The Group's objective with risk management is to detect and analyze risks in its business and to set and monitor the risk appetite. The Group's risk appetite and methods are regularly reviewed to analyze changes in risks related to the Group's markets and business.

b. Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a loss for the Group by failing to pay for its obligation. The Group's credit risk is mainly due to accounts receivable and is determined by the financial position and operations of individual customers. Management has implemented a policy for collections for which risks are monitored on a monthly basis. Estimates on collections are performed regularly and necessary allowances recorded.

The Group has rules in place for reviewing credit quality of new customers before granting terms of payment. Collection processes have been defined for all groups of accounts receivable, which are reviewed regularly and receivables evaluated.

The Group reviews an age analysis of accounts receivables monthly and recognizes an allowance for doubtful accounts based on expected credit losses. The allowance is based on past due status, historical collections and current economic conditions for customers. The Group reviews receivables that are considered high risk and estimates a specific allowance if appropriate.

Greatest possible loss due to loan risk

The greatest possible loss for the Group as a result of financial assets is the book value which was specified at year end as follows:

	Note	2018	2017
Accounts receivables and other receivables	23	3,403	3,146
Cash and cash equivalents		356	317
Total		**3,759**	**3,463**

At year end accounts receivables for the five biggest customers amounted to ISK m 372. (2017: ISK m 132)

Notes, cont.:

28. Risk management, cont.:

Impairment of accounts receivable

The age of trade receivable was specified at year end as follows:	Nominal claim 2018	Nominal claim 2017	Write-down 2018	Write-down 2017
Not due	3,042	3,111	(30)	(35)
Overdue within 90 days	269	99	(21)	(12)
Overdue in more than 90 days	171	17	(28)	(34)
Total accounts receivable at year end	**3,482**	**3,227**	**(79)**	**(81)**

Changes in the write-down of receivables during the year are specified as follows:

Balance at January 1st 2018	(81)	(160)
Starting balance corrected for discontinued operations	10	-
(Charged) during the year	(55)	(10)
Actual depreciations for the year	47	89
Balance at year end	**(79)**	**(81)**

c. Liquidity risk

Liquidity risk is the risk that the Group will have difficulties in paying its financial liabilities. The Group manages liquidity risk by maintaining adequate liquid assets to meet its financial obligations and thereby avoiding reputational damage

The Group has implemented a management policy for liquidity risk, which determines the Group's handling and use of liquid funds and aims to minimize risks. Cash flow projections that predict the needs for liquid funds are prepared monthly. The Group has unused revolving facilities at year-end of 960 million ISK (2017: 600 million).

The table below shows undiscounted contractual payments of financial liabilities, including interest payments

	Book Value	Agreed cash- flow	Within a year	1 to 2 years	2 to 5 year	More than 5 years
December 31. 2018						
Liabilities:						
Interest bearing liabilities	11,576	14,000	1,269	2,690	10,041	-
Derivatives	124	124	46	40	38	-
Accounts payable and other current liabilities	3,928	3,928	3,928	-	-	-
Total	**15,628**	**18,053**	**5,243**	**2,731**	**10,080**	**0**
December 31. 2018						
Liabilities:						
Interest bearing liabilities	11,350	13,883	1,092	1,315	8,146	3,330
Derivatives	171	171	42	45	84	-
Accounts payable and other current liabilities	3,702	3,702	3,702	-	-	-
Total	**15,223**	**17,756**	**4,836**	**1,360**	**8,230**	**3,330**

Consolidated financial statement of Sýn hf. 27 Amounts are in ISK millions.

Notes, cont.:

28. Risk management, cont.:

d. Market risk

Market risk is the risk that changes in foreign exchange rates, interests and equity price will affect the net results of the Group and book value of its investments. The objectives of managing market risk is to control and limit risk at a predetermined limit, and at the same time maximizing profits.

(i) Exchange rate risk

The Groups presentation currency is ISK, but part of its revenue and purchases are in other currencies. The Group is mainly exposed to currency risk with regards to EUR, USD, GBP and SDR. Finance- and operations is responsible for monitoring exchange rates of the essential currencies with regards to impact of financial assets and liabilities denominated in foreign currencies on the financial statements

The Group's exchange rate risk is as follows (in ISK millions).

December 31. 2018	EUR	USD	GBP	SDR
Accounts receivable	83	16	1	81
Cash and cash equivalents	1	-	-	-
Accounts payable	(429)	(527)	(87)	(9)
Risk in the balance sheet	**(345)**	**(511)**	**(87)**	**72**

December 31. 2017	EUR	USD	GBP	SDR
Accounts receivables	84	48	-	107
Cash and cash equivalents	10	-	-	-
Accounts payables	(325)	(539)	-	(9)
Risk in the balance sheet	**(231)**	**(491)**	**0**	**98**

The exchange rate of the major currencies during the year was as follows:

	Average rate		Year end rate	
	2018	2017	2018	2017
EUR	127.73	120.54	133.23	125.05
USD	108.38	106.78	116.33	104.42
GBP	144.35	137.45	148.33	140.98
SDR	153.24	148.03	161.82	148.67

Sensitivity analysis

10% strengthening of ISK against the relevant currencies would increase pre-tax net profit of the Group by 87 million ISK (2017: 62 million). A 10% weakening of the ISK would have the opposite effect. The analysis is based on the same assumptions as in the prior year.

(ii) Interest rate risk

The Group is exposed to interest rate risks as funds are borrowed at variable interest rates. Interest rate risk is managed by the use of interest rate swap contracts

Interest bearing liabilities are as follows:	2018	2017
Borrowings with variable interest	11,561	11,350

A 100 bps change in interest would effect the pre-tax profit by 115 million ISK (2017: 113 million). The Group has no fixed rate borrowings. The Group is party to interest rate swaps where it pays fixed interest and receives variable interest.

Notes, cont.:

28. Risk management cont.:

e. Fair value

The difference between fair value and book value of financial assets and financial liabilities is insignificant.

29. Capital management

The Group's objective is to maintain a strong equity ratio to support stability in future operations. In the long term it is the objective to maintain at least a 30% equity ratio. The equity ratio at year end was 39,6% (2017: 39,7%).

The Group is not subject to regulatory requirements on minimum equity.

30. Leases

The group as a lessee

Operating lease payments are specified as follows:	2018	2017
Within a year	479	387
In 1 to 5 years	1,719	1,927
More than 5 years	714	949
Total	**2,913**	**3,264**

The Group has entered into lease agreements for up to ten years. In the year 2018 there were 506 million isk. (2017: 397 million isk.) expensed in the income statement for lease agreements. Upon the initiation of IFRS16 on January 1. 2019 the standard supersedes current guidelines for the accounting treatment of leases, including IAS17. See further in note 4. c.

Consolidated financial statement of Sýn hf. 29 Amounts are in ISK millions.

Notes, cont.:

31. Related parties

Definition of related parties

Related parties are those that have direct or indirect control in the Company or have the power to govern financial and operational policies. Among parties related to the Company are: key management, close family members of key management and entities over which key management or their family members have control or significant influence. Shareholders that have control or significant influence over the entity are also considered related parties.

Trading with the Board and key management

Salaries and benefits to the Group management due to work for the Group's companies and shares in the company are specified as follows:	2018 Fixed terms	2018 Variable terms	2017 Fixed terms	2017 Variable terms	No of shares at the end of 2018
Board:					
Heiðar Guðjónsson, Chairman of the B.	9.2	-	8.4	-	-
Hildur Dungal, vice chairman	4.2	-	3.9	-	-
Anna Guðný Aradóttir, Board member	5.0	-	4.5	-	-
Hjörleifur Pálsson, Board member	5.0	-	4.5	-	100,000
Yngvi Halldórsson, Board member	5.0	-	4.0	-	34,000
Tanya Zahrov	1.2	-	1.0	-	-
Baldur Már Helgason	0.2	-	0.2	-	-
Nomination committee:					
Ásdís Jónsdóttir	1.2	-	1.3	-	-
Ragnheiður S. Dagsdóttir	1.5	-	1.3	-	-
Þröstur Olaf Sigurjónsson	0.2	-	-	-	-
Key management:					
Stefán Sigurðsson, CEO of Sýn hf.	45.3	-	41.9	23.4	196,186
Rúnar Reistrup, CEO of Hey P/F	26.4	5.6	25.3	1.9	-
The groups five managers	142.7	-	83.5	23,9**	173,130

*Heiðar Guðjónsson does not hold shares in Sýn directly, but Ursus ehf., an entity financially related to him has 8% share in the Company.

Included are shares of spouses, children not legally competent to manage their financial affairs and entities controlled by board and management.

**Two of the Board members are just included in one month in the amount for 2017

Other transactions with board of directors and key management are immaterial. Terms and conditions for transactions with board member and key management are on the same basis as transaction with unrelated parties and are therefor classified as such.

Trading with related parties

Sale of goods and services to related parties and entities related to the amounted to 20 million ISK in the year 2018 (2017: 10 million) and purchases of goods and services amounted to 6 million ISK (2017: 4 million).

Consolidated financial statement of Sýn hf. 30 Amounts are in ISK millions.

Notes, cont.:

32. Subsidiaries

At 2018 year-end Sýn hf. has two fully owned subsidiaries; P/F Hey in the Faroe Islands and Ljóðsleiðarafélagið ehf. The Company also is a joint venture in Sendafelagið ehf.

33. Acquisition of buisness units

On March 14th 2017 Sýn hf. and 365 miðlar ehf. signed an agreement for the acquisition of certain parts of business and assets of 365 miðlar ehf., excluding assets related to issue of Fréttablaðið an the magazine Glamour. On October 9th 2017 the Competition Authority agreed to the acquisition with certain conditions. Sýn hf. took over the business and related assets on December 1st 2017, which is included in the consolidated accounts from that date.

Purchase price was paid with:	2018		2017
Cash and cash equivalents	6,193	-	6,193
Share capital in Sýn hf.	2,111	-	2,111
Total purchase price	**8,304**	**-**	**8,304**

Part of the purchase price was paid with shares in Sýn hf., a total of 32,4 million shares with a market value of 2,111 million ISK on the acquisition date spot rate. As part of the purchase price, Sýn hf. settled borrowings in the amount of 4,600 million ISK on behalf of the seller, which is included with Cash and cash equivalents above. Early settlement fee amounted to 68 million ISK.

Below is a fair value measurement of assets and liabilities according to a final purchase price allocation, including adjustments from the provisional purchase price allocation. Purchase price allocation was finalized within 12 months from the acquisition date, in accordance with IFRS 3 requirements.

Evaluation of assets and liabilities on aquisition date	2018	Adjust-ment from provisional PPA	2017
Current assets			
Program inventory	1,263	-	1,263
Fixed assets			
Brand and business contacts	3,293	1,561	1,732
Property, plant and equipment	407	-	407
Intangible assets	64	-	64
Shares in other companies	5	-	5
Total assets	**5,032**	**1,561**	**3,471**
Short-term liabilities			
Accounts payable	1,364	121	1,243
Pre-collected income	300	-	300
Total liabilities	**1,664**	**121**	**1,543**
Fair value of net assets	**3,368**	**1,440**	**1,928**
Goodwill			
Purchase price	8,304		8,304
Fair value of net assets and liabilities	(3,368)	(1,440)	(1,928)
Goodwill from the purchase	**4,936**	**(1,440)**	**6,376**

Consolidated financial statement of Sýn hf. 31 Amounts are in ISK millions.

Notes, cont.:

34. Transactions without cash movements

Part of the purchase price of certain assets and operations of 365 miðlar ehf. during the year was paid in 2017 with the issue of shares of ISK 1,560 million. kr. and own shares ISK 551 million. See note 33 for further details. There were no significant non-payment movements in 2018.

35. Collateral and guarantee obligations

The Group‘s assets are pledged in the amount of 5,650 million ISK (2017: 5.500 million) to secure borrowings of Sýn from Landsbankinn at 2018 year end. The following assets are pledged; all liquid assets, including vehicles, telecommunications equipment, leases, right-of-use agreements, inventory, accounts receivable and brands.

36. Other matters

Sýn hf. (the "Company") is engaged in legal proceedings against individuals, other companies and supervisory authorities in the Icelandic telecommunication and media market. The Company recognizes obligations and/or claims due to such legal proceedings in its accounts once future payments and other benefits can be evaluated in a tangible 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.

Sýn's hf. acquisition of certain parts of 365 miðlar ehf.'s business

In December 2017, the Company acquired certain parts of the 365 miðlar ehf.'s business. Purchase price allocation has now been finalized.

Sýn hf. vs. Síminn hf. and counterclaim

The Company filed a petition 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 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 hf. vs. Póst and Telecom Administration, Sýn hf. and Nova ehf.

Síminn hf. filed a claim against the Post and Telecom Administration ("PTA"), Sýn hf. and Nova ehf., requesting an annulment of a decision of the PTA no. 14/2014. The decision permitted Sýn hf. and Nova hf. to jointly use their frequency authorization in an operating entity. The case was filed before the District Court of Reykjavík on 11 December 2014. Síminn hf. requested the preparation of an special expert report, which was submitted before the court on 30 January 2018. The main case proceedings took place following the settlement date and the ruling is currently awaited.

Disputes regarding television broadcasting

Finally, the Company is in a dispute with Síminn hf. before the authorities and courts due to matters related to television broadcasting. Firstly, an injunction was imposed on the Company for its recording and sharing of television material from Skjár Einn (now Sjónvap Símans) in a non-linear manner.

Secondly, the PTA concluded on an administrative decision no. 10/2018 to the effect that Síminn hf. had violated a provision of the Media Act by directing it's media service customers (Sjónvarp Símans) to a related telecommunication company (Síminn hf/Míla hf.). An administrative fine in the amount to ISK 9 million was imposed on Síminn.

36. Other matters cont.

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

Síminn hf. made a claim against the PTA, Sýn hf. and Gagnaveita Reykjavíkur ehf., for the annulment of the aforesaid decision of the PTA no. 10/2018. The case was filed before the District Court of Reykjavík on 9 October 2018.

Sýn hf. made a counterclaim on 4 December 2018, making a reverse claim for payment from Síminn in the amount of ISK 2,092,182,056, plus penal interests, as damages for the criminal and unlawful conduct, which was confirmed in the above decision of the PTA no. 10/2018

Quarterly statements

Operations by quarters

	2018 1Q	2018 2Q	2018 3Q	2018 4Q	Total
Net sales	**5,304**	**5,444**	**5,449**	**5,754**	**21,951**
Cost of sales	(3,197)	(3,364)	(3,311)	(3,684)	(13,556)
Gross profit	2,107	2,080	2,138	2,070	8,395
Operation expenses	(1,896)	(1,886)	(1,641)	(1,769)	(7,192)
Operation profit	211	194	497	301	1,203
Finance income	12	18	13	14	57
Finance cost	(151)	(216)	(226)	(192)	(785)
Net finance items	(139)	(198)	(213)	(178)	(728)
Profit before tax	**72**	**(4)**	**284**	**123**	**475**
Tax	(16)	0	(58)	72	(2)
Profit or loss for the period	**56**	**(4)**	**226**	**195**	**473**
Translation difference of the foreign operations	(21)	13	28	26	46
Cash flow hedges	37	(8)	(1)	30	58
Total comprehensive income for the period	**72**	**1**	**253**	**250**	**577**
EBITDA	718	718	1,032	780	3,248
EBITDA %	13.5%	13.2%	18.9%	13.6%	14.8%
Net cash from operating activities	419	365	519	778	2,081
Investing activities	(522)	(854)	(516)	(557)	(2,449)
Financing activities	26	565	(50)	(97)	444

Consolidated financial statement of Sýn hf. 33 Amounts are in ISK millions.

Quarterly statements cont.:

Operations by quarters

	2017 1Q	2017 2Q	2017 3Q	2017 4Q	Total
Net sales	**3,141**	3,386	**3,437**	**4,304**	**14,268**
Cost of sales	(1,707)	(1,865)	(1,887)	(2,370)	(7,829)
Gross profit	1,434	1,521	1,550	1,934	6,439
Operation expenses	(1,092)	(1,145)	(1,092)	(1,560)	(4,889)
Operation profit	342	376	458	374	1,550
Finance income	11	18	12	7	48
Finance cost	(102)	(96)	(108)	(116)	(422)
Net finance items	(91)	(78)	(96)	(109)	(374)
Profit before tax	**251**	298	**362**	**265**	**1,176**
Tax	(50)	(59)	(72)	91	(90)
Profit or loss for the period	**201**	**239**	**290**	**356**	**1,086**
Translation difference of the foreign operations	8	(15)	35	3	31
Cash flow hedges	7	(32)	17	(77)	(85)
Total comprehensive income for the period	**216**	**192**	**342**	**282**	**1,032**
EBITDA	719	761	854	803	3,137
EBITDA %	22.9%	22.5%	24.8%	18.7%	22.0%
Net cash from operating activities	190	411	858	691	2,150
Investing activities	(325)	(536)	(368)	(6,628)	(7,857)
Financing activities	42	178	(430)	5,869	5,659

Consolidated financial statement of Sýn hf. 34 Amounts are in ISK millions.