Sunstone IV hf.

Consolidated Financial Statements

for the year ended 31 December 2022

Sunstone IV ehf.
Stórhöfða 22-30
110 Reykjavík
Id.no. 620921-2540

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Bls.

Endorsement and Statement by the Board of Directors and the CEO

Sunstone IV hf. is a public limited company and operates on the basis of Act no. 2/1995 on public limited companies. Sunstone IV hf. is a holding company established as a key component of a strategic group structure owned by Ardian Infrastructure Fund V SCA, SICAR and Ardian Infrastructure Fund V B SCS SICAV RAIF toghther with KFM eignarhaldsfélag slhf. Its primary purpose is to hold and manage the ownership of shares in Míla hf., a subsidiary company, thereby enabling centralized control and facilitating efficient management of the group's assets. The core business of Míla hf. is to build and operate a telecommunications network in Iceland.

The consolidated financial statements for the year ended 31 December 2022 comprise the financial statements of Sunstone IV hf. (The Company) and its subsidiary Míla hf. (The Group) for the period 1. October to 31 December 2022. The consolidated financial statements of Sunstone IV hf for the year 2022 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by EU.

Investment in Míla hf.

At 30 September 2022 the company aquired all the shares in Mila hf. through its subsidiairy AB 855 hf. which was established with the objective to submit a bid for all the issued shares in Míla hf. AB 855 was merged with Míla on 30 September 2022, with Míla being the surviving entity. Reference is made to note 22 regarding further information about the aquisition of Míla hf.

Operations 2022

The total revenues for the three months period from 1 October to 31 December 2022 amounted to ISK 2.219 million. Cost of sales amounted to ISK 1.270 million and operating expenses amounted to ISK 1.480 million. Net financial expenses amounted to ISK 1.405 million and loss for the period amounted to ISK 1.759 million.

According to the Balance Sheet, total assets at the year-end amounted to ISK 85.856 million and total equity amounted to ISK 11.055 million. Long-term borrowings amounted to ISK 60.487 million at year end. Including in borrowings is a loan of amount of ISK 38.487 million from Sunstone III hf. which is payable in one installment at the end of the loan period in 2031. Accrued interests are added to the principal at year-end but the Group has the option to postpone payments of interests until at the end of the loan period.

In 2022, Míla continued the fibre rollout (FTTH) which had started in 2016. At year-end Míla has made fibre available in 120.000 premises, an increase of 12.000 during 2022. The number of active fibre connections increased by 4.200 during the year. In recent years Míla has acquired small fibre networks across the country. In 2022 Míla acquired a fibre network in Kaldrananeshreppur. In 2022 Míla started installation of a new system, Dense wavelength-division multiplexing (DWDM) which is an optical fibre multiplexing technology that increases the bandwidth of fibre networks. Míla completed the installation from the southwest over the highlands to the north and east. The complete installation will be finished in 2023. The DWDM system will greatly increase the overall bandwidth capacity for the transmission network country wide and support both FTTH and 5G services. At the end of 2022 Míla offered a new service to customers, sharing of Remote Access Network(RAN). Míla expects this service to become a cost-effective solution for mobile service rollout, especially in rural areas or locations of questionable economic value for the mobile operators.

Ownership and dividend proposal

Total shares at the end of 2022 amounted to 132.101.375 where Sunstone III ehf. owned 132.101.374 shares and Sunstone I Bis ehf. owned 1 share.

The Board of Directors will propose to the Annual General meeting that no dividend will be paid to shareholders in 2023 for the operating year 2022 and refers to the Financial Statement on other changes in equity.

Performance status and risk and management

The Group´s risk policy is based on the enterprise risk management (ERM) framework in IOS/IEC 31000 and the guiding framework of COSO. The methodology for performing risk assessment is also based on International Standards for information security according to ISO/IEC 27000. Míla has been ISO/IEC 27001 certified since 2016. The risk landscape consists of four key areas, Business, Financial, Operational & Hazard risks.

The key risks are events which can threaten employees health and safety or events that can have an impact on the continuity on the business operations. Risk management policies and systems are in place to prepare the company for unexpected events and minimise the negative impact on the company's objectives. Míla's management system and security policies are designed to ensure the safety and operational continuity of services and telecommunications networks, as well as minimising operational risk, support processes and improve network operations.

The Board of Directors has an ongoing dialogue with the CEO on the identification, description and handling of the business risks to which the company may be exposed to. The company’s risk management and internal controls, in relation to financial processes, are designed to control the risk of material misstatements. The Group designs its processes to ensure that there are no material weaknesses in internal controls that could lead to a material misstatement in its financial reporting. The external Auditor’s role in these processes is included in the Auditor’s Report.

Further description of the risks can be found in the Annual report of Míla and on Míla’s website. Information about the financial instruments and financial risk management can be found in note 23.

Corporate Governance and non-financial information

The Board of Directors of the Group follows Icelandic Recommendations for Corporate Governance, the company's Articles of Association, the board's rules of procedure, the company's code of ethics and a settlement with the Competition Authority. The Corporate Governance is based on the Corporate governance Guidelines issued by the Iceland Chamber of Commerce, Nasdaq OMX Iceland hf. and the Confederation of Icelandic Employers, 6th edition 2021.

All employment contracts with the company's employees are standard.

The Board of Directors is composed of seven members elected at the Annual General Meeting for a term of one year. The Board of Directors consists of three women and four men in compliance with the Icelandic law on gender ratio. The company's Executive Board consists of three women and three men. At 31 December 2022 the group had 142 employees, 20 women and 122 men.

The Board of Directors decides the CEO's remuneration. There are no stock options between the company and its employees.

More information about non-financial disclosures necessary to analyse the environmental, social and employee aspects of the Group´s operation, the Board and Corporate Governance can be found on Míla's website and in the annual financial statements of Míla.

Statement by the Board of Directors and CEO

The Financial Statements of Sunstone IV hf. for 2022 have been prepared on a going-concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and compliant with applicable Icelandic laws and regulations. In our opinion, the Financial Statements give a true and fair view of the financial position of the Group at 31 December 2022, its financial performance and cash flows for the year 2022. Furthermore the Financial Statements, including the Endorsement and Statement by the Board of Directors and the CEO, describe the principal risks and uncertainties facing the Company. The Board of Directors and Chief Executive Officer of the Company endorse the Consolidated Financial Statements of Sunstone IV ehf. for the year 2022 with their signatures. The Board of Directors and the CEO recommend that the Annual General Meeting of Sunstone IV hf. approve the Financial Statements.

Reykjavík, 21 April 2023,

Board of Directors:

Jón Ríkarð Kristjánsson, chairman

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Jón Ríkarð Kristjánsson
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Oscar Cicchetti

DocuSigned by:
Oscar Cicchetti
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Pauline Thomson

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Pauline THOMSON
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Marion Emmanuelle Calcine

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Birna Ósk Einarsdóttir

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Leonard Rasche

DocuSigned by:
Leonard Rasche
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Þórarinn V. Þórarinsson

DocuSigned by:
Þórarinn V. Þórar
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CEO:
Erik Figueras Torras

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Consolidated Income Statement from 1 October to 31 December 2022

	Notes	2022 1/10-31/12
Sales	4	2.219
Cost of sales	5	(1.272)
Gross profit		947
Operating expenses	6	(1.480)
Operating loss		(533)
Financial income		27
Financial expenses	8	(1.421)
Net exchange rate differences		(11)
Net financial expenses		(1.405)
Loss before tax		**(1.938)**
Income tax	9	179
Loss for the period		(1.759)

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Consolidated Balance Sheet as at 31 December 2022

	Notes	2022
Assets		
Non-current assets		
Operating assets	10	26.412
Right of use assets	11	4.550
Goodwill	12	28.243
Other intangible assets	12	21.359
Other non-current assets	13	61
Non-current assets		80.625
Current assets		
Inventories	14	460
Accounts receivables	15	1.403
Other assets	16	287
Cash and cash equivalents		3.081
Current assets		5.231
Total assets		85.856
Equity		
Share capital	17	132
Share premium	22	12.682
Accumulated deficit	22	(1.759)
Total equity		11.055
Liabilities		
Non-current liabilities		
Borrowings	18	22.000
Borrowings - Related parties	24	39.372
Long-term lease liabilities	19	4.360
Deferred tax liabilities	22	6.243
Non-current liabilities		71.976
Current liabilities		
Accounts payable		930
Current maturities of lease liabilities	19	407
Other current liabilities	21	1.489
Current liabilities		2.826
Total liabilities		74.802
Total equity and liabilities		85.856

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Statement of Changes in Equity for the year 2022

	Share Capital	Share Premium	Accumulated Deficit	Total equity
Paid in capital	132	12.682		12.814
Net loss for the year			(1.759)	(1.759)
Total equity 31.12.2022	132	12.682	(1.759)	11.055

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Cash Flow Statement from 1 October to 31 December 2022

		2022
		1/10-31/12
Cash flow from operating activities		
Operating loss		(1.759)
Operational items not affecting cash flow:		
Depreciation	12-14	1.073
Accrued interests and indexation		948
		262
Changes in operating assets and liabilities		(497)
Cash generated by (to) operations		(235)
Investing activities		
Investment in operating assets	12	(1.138)
Investment in intangible assets	14	(24)
Aquisition of subsidiary, net of cash acquired	22	(50.571)
Other changes	15	38
		(51.695)
Financing activities		
Paid-in capital	24	12.814
Repayments of borrowing	24	(19.000)
Proceeds from borrowings	24	21.929
Loans from related parties	24	38.487
Repayments of lease liabilities	24	(98)
Other current liabilities, change		879
		55.011
Net change in cash and cash equivalents		3.081
Cash and cash equivalents at the beginning of the year		0
Cash and cash equivalents at the end of the year		3.081

Other information

Net financial expenses paid		(309)
Paid taxes		(46)

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Notes to the Financial Statements

1. General information

Sunstone IV hf. is a limited liability company incorporated and domiciled in Iceland. The company is the parent company of Míla hf. The core business of Míla hf. is to build and operate a telecommunications network in Iceland as well as operational and advisory services for the telecommunications and co-location services. Sunstone III ehf. is the company´s parent company. These financial Statements are a part of Consolidated Financial Statements of Sunstone II hf. Ardian Infrastructure Fund V B SCS SICAV RAIF is the Company's ultimate parent company.

2. Basis of accounting

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. A summary of significant accounting policies is disclosed in Note 26.

These consolidated financial statements were approved and authorised for issue by the Company's Board of Directors on 19 April 2023.

3. Use of judgements and estimates

The preparation of the Financial Statements in accordance with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the companys accounting policies.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are revised and in the future period affected.

Measurement of fair values

A number of the Group´s accounting policies require measurement of fair values, for both financial and non-financial assets and liabilities.

The Group regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, the Company assesses the evidence obtained from the third parties to support the conclusion that these valuations met the requirements of the Standards, including the level in the fair value hierachy in which the valuations should be classified.

When measuring the fair value of an asset or a liability, the group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierachy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: inputs for the asset or liability that are not based on observable market data.

4. Sales

Sales of service and goods is specified as follows:

	2022 1/10-31/12
Core Business	1.687
Connectivity and Internet	225
Sales of service and goods	307
	2.219

5. Cost of sales

Cost of sales is specified as follows:

	2022 1/10-31/12
Salaries and related expenses	291
Cost of service sold	286
Housing cost	133
Cost of goods sold	9
Depreciation and amortization	553
	1.272

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

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Notes to the Financial Statements

6. Operating expenses

Operating expenses is specified as follows:

	2022
	1/10-31/12
Salaries and related expenses	263
Sales and marketing expenses	13
Housing and transportation expenses	30
IT-Expenses	64
Bad debt write offs	13
General and administrative expenses	68
Consulting expenses	509
Depreciation and amortization	520
	1.480

7. Salaries and salary-related expenses

Salaries and salary-related expenses is specified as follows:

	2022
	1/10-31/12
Salaries	617
Contributions to pension funds	68
Other salary-related expenses	46
	731
Average number of full year equivalents	142
Salaries and related expenses are specified as follows in the income statement:	
Cost of sales	291
Capitalised work	177
Operating expenses	263
	731

The parent compay (Sunstone IV hf.) did not have employees on payroll in 2022. Total salaries and benefits paid the Míla´s CEO and board of directors for the full year 2022 amounted to ISK 194 million.

8. Financial income and expense

	2022
Financial income	1/10-31/12
Interest income	27
	27
Financial expense	
Interest on borrowings	(485)
Interest to related parties - see note 24	(885)
Interest on leases	(51)
	(1.421)
Net exchange rate differences	(11)
Net financial expenses	(1.405)

9. Taxes

No income tax will be paid in year 2023 due to taxable losses.

Reconciliation of effective income tax rate:		**2022**
(Loss) profit before tax		(1.938)
Income tax	20%	388
Impact of unrecognsed defered tax assets due to taxable losses	-11%	(209)
Income tax according to income statement	9%	179

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10. Operating assets

Operating assets are specified as follow:

	Telecom equipment	Buildings	Other equipment	Total
Acquisition through business combination	23.249	2.486	226	25.961
Additions	1.097	32	9	1.138
Depreciation	(640)	(38)	(11)	(689)
Sales and disposals	0	2	0	2
Balance at 31.12.2022	23.706	2.482	224	26.412
Carrying amounts				
At 31.12.2022	23.706	2.482	224	26.412

The official real estate valuation of buildings owned by the Group is 1.842 m.kr. and insurance value 4.261 m.kr. Insurance value of other equipment is 7.611 m.kr.

Useful life is specified as follows:

Telecom equipment	7 - 30 years
Buildings	15 - 33 years
Other equipment	3 - 15 years

11. Right-of-use assets

Most of the Group´s leases, buildings, vehicles and fibre are capitalized according to IFRS 16. Leases for a shorter period than one year or with an insignificant value are not capitalized.

Right-of-use assets are specified as follows:

	Telecom equipment	Buildings	Other equipment	Total
Cost				
Acquisition through buisness combination	188	4.252	35	4.475
Additions	2	170	26	198
Depreciation	(4)	(101)	(5)	(110)
Sales and disposals		(10)	(2)	(12)
Balance at 31.12.2022	186	4.311	54	4.550
Carrying amounts				
At 31.12.2022	186	4.311	54	4.550

12. Goodwill and other intangible assets

Intangible assets are specified as follow:

	Goodwill	Business relatations	Software	Total
Cost				
Acquisition through buisness combination	28.243	21.399	211	49.853
Amortisation				
Additions		2	22	24
Amortisation	0	(254)	(20)	(274)
Amortisation at 31.12.2022	0	(252)	2	(250)
Carrying amounts				
At 31.12.2022	28.243	21.146	213	49.602

Useful life is specified as follows:

Software	2 - 15 year
Business relations	10 year

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Notes to the Financial Statements

12.1. Annual test for impairment

In October 2021, Síminn (Míla's former parent company owning 100% shares) accepted a purchase offer by Ardian Infrastructure Fund S SCA, SICAR and Ardian Infrastructure Fund V B SCS SICAV RAIF of ISK 78 billion kronas. The bid was made following due diligence and a thorough review of Míla's current operations and future prospects. Ardian's offer, which exceeded the company's total balance sheet value, was used as the basis for an impairment test for 2022 and therefore no impairment was recorded during the year.

Following a negotiation with the Competition Authority the parties agreed for a purchase price of ISK 69,5 billion on 14 September 2022 and the purchase was closed 30 September 2022. The purchase price adjustment agreed on 14 September 2022 between the Parties specifically reflected Míla hf. actual current trading performance, and the cash flow impact of changes to the Wholesale Services Agreement to be entered into between Míla hf. and Síminn hf. that became necessary as part of the approval process of the Transaction by the Icelandic Competition Authority. Further, the purchase price was adjusted to reflect the prevailing outlook for Icelandic interest rates (Icelandic Central Bank Key Interest Rate and REIBOR rate) based on forecasts provided by Landsbankinn and Íslandsbanki at that time. The interest rate rises anticipated for October to December 2022 by these forecasts anticipated Key Interest Rate increases in line with actual rate changes observed during that period. As such, as of 31 December 2022, the recoverable amounts of the assets is determined based on the purchase price and no further impairment tests necessary on the intangible assets.

13. Other non-current assets

Other non-current assets are specified as follows:	**2022**
Long term financial assets	55
Other assets	6
Other financial assets total	61

Long-term financial assets consist of 10 years prepaid operating leases for Svalbardshreppur's fibre optic system and 7 years purchase lease to Kópavogur town for the sale of fibre threads in 2018.

14. Inventories

Inventories are specified as follows:	**2022**
Supplies	460

15. Accounts Receivables

Accounts receivables are specified as follows:	**2022**
Accounts receivables	1.427
Allowances for doubtful accounts	(24)
Accounts receivables total	1.403

An allowance has been made for douptful accounts. This allowance has been determined by management with reference to expected credit loss (ECL). Management considers that carrying amount of receivables approximates their fair value.

16. Other assets

Other assets are specified as follows:	**2022**
Prepayments and accrued income	120
Other current assets	167
Other assets total	287

17. Share capital

The issued shares at the end of the year are ISK 132 million and the nominal value of each item is one Icelandic krona. All issued shares are paid in full.

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Notes to the Financial Statements

18. Borrowings

Borrowings are specified as follows:

	2022
Secured bond in ISK - Indexation + 2,20%	6.063
Secured bank loans in ISK - REIBOR + 2,65%	16.500
Long-term liabilities with related parties - REIBOR + 2,90%	38.487
Capitalised borrowing expenses	(563)
Borrowings total	60.487

Mila´s shares and bank accounts are pledged against the bond and the Facility agreement at a maximum of ISK 19,2 billions.

Installments of long-term liabilities are as follows:

Payments 2023	0
Payments 2024	251
Payments 2025	831
Payments 2026	831
Payments 2027	831
Payments 2028	831
Installments later	56.912
Total installments of long-term debt	60.487

19. Lease liabilities

	Telecom equipment	Buildings	Other equipment	Total
Acquisition through buisness combination	211	4.432	37	4.680
Payments	(3)	(89)	(5)	(97)
Additons, terminations and indexation	1	160	24	185
Lease liabilities 31.12.2022	209	4.502	56	4.767

Aggregated annual maturities are as follows:

Payments 2023	407
Payments 2024	403
Payments 2025	415
Payments 2026	374
Payments 2027	383
Payments later	2.785
Total lease liabilities	4.767

Extension options

Most of the Group´s leases for real estate apply for a specified period of time and are automatically extended to one year at a time if they are not terminated within a specified period of time. If the Group considers it cost-effective, it seeks to have extension rights in leases to ensure flexibility in operations. The Group assess at the start of the lease whether it is likely to be extended. It is generally assumed that contracts are active for 15 years . In the event of significant changes in circumstances at the Group's discretion, the Group will reassess the lease term. Generally the Lease term is expected to be evaluated every 5 years, for the first time in the end of 2023. Leases with low value or shorter time than one year are not considered as lease liability.

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Notes to the Financial Statements

20. Deferred tax liability

The deferred tax liability is allocated as follows:

	2022
Operating assets	6.565
Right-of-use assets	910
Lease liabilities	(951)
Taxable losses	(285)
Other items	4
	6.243

21. Other liabilities

	2022
Salaries and related expenses	446
VAT	42
Equalization tax	8
Other short-term liabilities	993
Other liabilities total	1.489

22. Aquisition of subsidiary

At September 30th 2022 the company aquired all the shares in Mila hf. through its subsidiairy AB 855 hf. which was established with the objective to submit a bid for all the issued shares in Míla hf. AB 885 was merged with Míla on 30.9.2022, with Míla being the surviving entity.

Following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of aquisition:

Operating assets	25.963
Right of use assets	4.475
Other intangible assets	21.610
Inventories	534
Receivables	1.734
Cash	586
Long term liabilities	(19.400)
Deferred tax liability	(6.422)
Lease contracts	(4.680)
Trade and other payables	(1.519)
Total identifiable net assets acquired	22.881

Goodwill arising from the acquisition has been recognised as follows:

Consideration transferred	51.124
Fair value of identifiable net assets	(22.881)
Goodwill	28.243

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Notes to the Financial Statements

23. Risk management

Captital risk management

The Group manages capital to ensure that the group will be able to continue as a going concern while maximizing the return to stakeholders though the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reseves and retained earnings as disclosed in the Statement of Changes in Equity.

Financial risk management objectives

The Group's operations, assets, liabilties and equity are exposed to risks. These risks include market risk, credit risk and liquidity risk. The Group's financial management is whitin the Group's policies approved by the Board of Directors. The Company does not enter into trade financial instruments, including derivative financial instruments, for speculative purposes.

Interest rate risk

The Company is exposed to interest rate risks as the Group's borrowings are with nominal floating interest rates. Changes in interest rates affects interest revenue and interest expenses in the Income Statement. The Company's Interest bearing liabilities are higher than interest bearing assets. There is a risk that possible increase in interest leads to an increase in net interest expenses.

Foreign currency risk

Financial assets and liabilities in foreign currency are insignificant compared to assets and liabilities in icelandic krona. Currency fluctuation has therefore not significant effect on the Group's operations and Financial position.

Credit risk

Credit risk is the risk of the Group's financial loss if its customer or counterparty to a financial instrument is unable to meet its agreed obligations. The Group's exposure to credit risk is limited to financial assets listed on the balance sheet, as well as certain guarantees. The Group regularly monitors the development of the assets related to credit risk, as the Group's business requirements are handled by a small number of customers where only wholesale transactions are involved.

The maximum credit risk is detected as follows:

	Maximum possible losses
	2022
Accounts receivables	1.403
Cash and cash equivalents	3.081
Other receivables	287
Other assets	55
	4.826

The majority of the Group's receivables are payable within 90 days. The Group generates an allowance for doubtful accounts. This allowance has been determined by management with reference to expected credit loss and past default experience, general economic conditions and an assessment of both the current as well as expected conditions.

The following table shows the age distribution of receivables.

	Nominal value	**Allowance for doutbtful accounts**
	2022	**2022**
Not past due	402	8
Less then 60 days past due	1.011	8
61-180 days past due	1	0
180-360 days past due	0	0
More than 360 days past due	12	7
	1.426	23

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23. Risk management, continue:

The Group's credit risk is mainly determined by its customer's financial position and operation. The Group writes off accounts receivables when there is information indicating that the debtor is in severe financial difficulty and there is no relistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. The collection rate is high at Míla. Write-offs in year 2022 were ISK 3 million. No loss risk is assesed on other receivables.

Liquidity risk:

Liquidity risk is the risk that the Group will encounter difficulties in meeting its financial obligations in the near future. The Group manages this risk by monitoring forecast and actual cash flows and ensuring adequate reserves. The Group also has an access to a short term loan at its commercial bank. The following table analyses the Group's obligations by their due dates. The table is based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The interests on the borrowings from parent company are presented as being payble annually but the Group has the option to postpone interest payments until the end of the loan period.

Contractual instalments on financial liabilities, including estimated interest payments, are distinguished as follows:

31 December 2022

	< 1 year	1-2 years	2-5 years	> 5 years	Total
Borrowings	1.621	1.871	7.036	22.224	32.752
Borrowings from parent company	3.609	3.619	10.828	52.877	70.933
Long-term lease liabilities	614	592	1.632	3.515	6.353
Accounts payables	2.419	0	0	0	2.419
	8.263	6.082	19.496	78.616	112.457

24. Related party

Shareholders who have a significant impact on the Group's operations, directors and their close family members and legal entities controlled by them are considered as related party.

Trading with related parties during the period and balances at the end of 2022:

	Purchased service & products	Sold services	Interest expenses	Receivables	Debts
Sunstone III ehf. - parent company			885		38.482
Other related parties					5
	0	0	885	0	38.487

25. Subsequent event

No significant events have taken place since the reporting date, 31 December 2022.

26. Summary of Significant Accounting Policies

The following accounting methods have been used in accordance with the International Financial Reporting Standards (IFRS) for all time periods presented in the annual report.

26.1. Business combinations

The Group accounts for business combinations using the acquisition method which results in the recognation of goodwill and other intangible assets. The consideration transferred in the aquistion is genearlly measured at fair value, as are the indentifiable net assets aquired. The fair value amounts allocated to the acquired assets and liabilities are based on assumptions and estimates about their fair values. A change in assumptions and estimates could change the values assigned to certain assets and their estimated useful lives, which could affect the amount or timing of amortization and depriciations charged to the Income Statement. The Company has one year from the acquisition date to adjust the initial accounting of the business combination to reflect new information that could have impact on the measurement of fair value at the acquisition date.

Sunstone IV ehf. - Consolidated Financial statement 2022 17 Amounts are in millions of ISK

Notes to the Financial Statements

26.2. Goodwill

Goodwill is recorded only when an existing company is bought by another company and arises when the purchase price exceeds the fair value of recognizable acquired net assets after evaluation on the purchase day has taken place.

Goodwill is not amortized but is reviewed for impairment at least annually. For impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If their book value is higher than their value than an impairment loss has occurred. Goodwill is first impaired, then other assets belonging to the cash-generated unit. An impairment loss recognized for goodwill is not reversed in a subsequent periods.

26.3. Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over service or good to a customer.

Core business

The core business of the Group is to sell access to Míla's network and co-location services.
Revenues are recognized with regards to the subscription period.

Sale of services

Revenues originating from services provided by Míla hf are recognized in the Income Statement upon completion.

Product sale

Revenues from sale of goods are evaluated at the fair value. Revenues are recognized on the Income Statement once a significant proportion of the risk and ownership has been transferred to the buyer.

Important accounting methods continue

26.4. Foreign currency

The Consolidated Financial Statement is presented in the Icelandic krona, ISK which is the Company functional currency.

26.5. Tax issues

Income tax expense consists of income tax payable and deferred income tax.

Income tax payable

Income tax payable is based on taxable profit for the period. Taxable income differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

Deferred income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Notes to the Financial Statements

26.5. Tax issues, continue:

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Taxes of the period

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in Other comprehensive Income or directly in equity, in which case, the current and deferred tax are also recognized in Other Comprehensive Income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination

26.6. Earnings per share

Earnings per share is net profit attributable to the parent Company's shareholders divided by the parent Company's average number of shares outstanding for the period

26.7. Operating assets

Assets are recorded as operating assets when it is likely that an economic benefit for the Company is associated with the asset, cost-benefit analysis can be performed with certainty and the cost of the asset can be measured in a reliable manner.

Operating assets are recorded at original purchase price less accumulated depreciation and impairments. Depreciation is recordedon a straight line basis over its useful life. Depreciation methods, estimation of useful life and residual value is reassessed regulary.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at the date of the sale transaction and is recognized in the Income Statement

Important accounting methods continue

26.8. Intangible assets

Intangible assets are recorded on purchase price less accumulated amortization.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognized seperately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

After initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

26.9. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Non-financial assets other than goodwill that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.
The residual value of the cash-generated unit that the asset relates to is estimated when it is not possible to estimate the value of single units.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflow (CGU)s from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from business combinations is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in the Income statement. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notes to the Financial Statements

26.10. Inventory

Inventories are stated at the lower of cost and net realizable value. Costs are assigned to inventories on a standard cost basis.

26.11. Obligations

Obligation is recognized when the Group has a legal or problable obligation to pay due to prior events and it's possible to estimate it's amount with certainty. The obligation amount is based on best possible estimation on reporting date. If the obligation is estimated from expected future cash flows, On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is

26.12. Financial Liabilities

Financial liabilites are classified as other financial liabilities.

Other financial liabilities

Other liabilities, including liabilities to financial institutions and trade payables are recorded initially at fair value less transaction costs. At a later assessment they are recognized at amortized cost based on the effective interest method.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled, or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

26.13. Leases

The Company assesses whether a contract is, or contains a lease, at inception of the contract. The Company recognizes a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short‐term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. When assessing whether a lease includes control of a specific asset, the company uses the definition of a lease in IFRS 16.

Important accounting methods continue

26.13.1 The Group as a lessor

The Group offers co-location service and fibre rental to other telecommunications companies. All leases can be terminated with one to nine months' notice or less. The Company classifies all leases as operating leases. The implementation of IFRS 16 does not have a significant impact on contracts where the company is a lessor.

26.13.2 The Group as lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Croup recognizes a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short‐term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security and conditions.

Right of use asset is initially measured at the amount equal to the initial measurement of lease liability. Right of use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Notes to the Financial Statements

In determining lease liability, Lease payments include the following:

– Fixed payments, including lease payments that are according to their nature fixed;

– Variable lease payments that depend on an index or interests, valued at their original payment value at inception;

– Amounts expected to be payable by the lessee under residual value guarantees; and

– Purchase price according to call option in lease agreement when the company expects to excerise that option, lease payments on extention periods when the Company expect it will extens the lease and payments due to termintion before the end of lease period, except the Company expects it will not terminate the agreement before the end of the lease period

Lease liability is recorded at net book value with respect to effective interest method. The liability is revaluated when there is a change in future lease payments with respect to index or intrest rate, if if the Company expects a change in value due to residual value guarantees, if the Company expects changes in extension or termination on the lease period or when there is a change of a lease payments which are by nature, fixed.

When lease liability is revaluated the book value of the right of use asset is adjusted accordingly, or recorded in the income statement if the book value of the right-of-use asset has been recorded at salvage value.

27. Standard issued but not yet effective

Several new international accounting standards apply to the financial years that begin after 1 January 2022, which may be applied before their entry into force. However, the Group has not implemented new or changed accounting standards in presenting these financial statements.

Management of the Group does not expect that the adoption of the standards will have a material impact on the Financial Statements of the Group in future periods.

– Deferred tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

– IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.

– Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice statement 2)

– Definition of Accounting Estimates (Amendments to IAS 8)