Origo hf.

Consolidated Financial Statements
for the year 2019*

*These consolidated financial statements are translated from the original which is in Icelandic. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.

Origo hf.
Borgartún 37
105 Reykjavík

Reg. no. 530292-2079

Contents

Endorsement and Statement by the Board of Directors and the CEO

Origo hf. provides to its customers complete solutions in the fields of information technology with software development and by providing hardware, software, office equipment and technical services. The financial statements include the consolidated financial statements of Origo hf. and its subsidiaries. The Group consists of four entities.

Operations in 2019

According to the statement of comprehensive income, profit for the year 2019 amounted to ISK 456 million. Sale of goods and services amounted to ISK 14,845 million during the year. According to the statement of financial position, the Group's equity at year-end amounted to ISK 6,817 million. Reference is made to Notes 24 to 28 regarding the Company's risk exposure.

On 1 February 2019 changes to Origo's organisational structure were announced which are aimed to simplify the governance, reinforce client services and strengthen the operations. Subsequent to the changes, Origo is operated in four income sections and two support sections, i.e. End-User Solutions, Software Solutions, Business Solutions and a new Service Solutions, which will all be supported by Human Resources and Finance functions.

At the end of March, employees exercised their option to purchase shares in accordance with the Company's share purchase scheme of 4.4 million shares for the amount of ISK 75 million. The share purchase scheme which was announced on 1 April 2016 is now closed and no call options are currently outstanding at the Company.

At Origo's Annual General Meeting on 7 March 2019, a decrease of the Company's shares by ISK 5,703,309 was approved as corresponding reduction in the Company's own shares. Conditions for the reduction were met on 15 March 2019.

At the end of May 2019 Origo purchased all shares in Strikamerki hf. which focuses on POS, handheld and printing solutions.

In mid July 2019 Origo took part in recommencing the operations of Tölvutek through its subsidiary Sense ehf., and the company has operations in Reykjavik and Akureyri.

In September 2019 Origo acquired the company Bus Travel IT, which develops business solutions for the tourist industry.

In October 2019 Origo hf. received acknowledgement from Creditinfo as "Outstanding Company" and is ranked first among IT companies.

In December 2019 Origo hf. acquired The Booking Factory from Buuqit.com Inc. The Booking Factory is a hotel booking system used by small and medium sized hotels in UK, Iceland and other places.

During 2019 the Company purchased a total of 31.1 million treasury shares in accordance with the Company's repurchase plan. The current repurchase plan ended at 7 January 2020. At the end of the repurchase plan Origo currently owns 5.4% of the Company's shares which amounts to ISK 460 million.

Share capital and Articles of Association

Shareholders at year-end were 519, compared to 576 at the beginning of the year. At year-end 2019, three shareholders owned more than 10% of the Company's outstanding share capital. The ten largest shareholders of the Company are:

	Share*
Hvalur hf	11,5%
Birta lífeyrissjóður	11,2%
Lífeyrissjóður verslunarmanna	10,5%
Kvika banki hf.	9,7%
Sjóvá - Almennar tryggingar hf.	4,5%
Lífsverk lífeyrissjóður	4,5%
Arion banki hf.	3,5%
Landsbréf Úrvalsbréf	3,3%
Landsbankinn hf.	3,2%
HEF Capital ehf.	2,5%

* Shares taking into account own shares

Endorsement and Statement by the Board of Directors and the CEO contd.:

Share capital and Articles of Association, contd.

The Board of Directors proposes that a dividend of ISK 180 million be paid to shareholders in 2020. Reference is made to the financial statements for further information on allocation of profit and other changes in equity.
The share capital of the Company amounted to ISK 459 million at year-end, but the Company holds own shares of a nominal value of ISK 2.4 million at year-end 2019. The entire share capital is of the same class listed on the Iceland Stock Exchange. All shares are entitled to the same rights.

The annual general meeting on 7 March 2019, resolved to authorise the Board of Directors to purchase up to 10% of the nominal value of the shares in the Company, cf. Chapter VIII of Act No. 2/1995 on Limited Liability Companies. The purchase rate shall be based on the last registered rate of Nasdaq OMX Iceland hf. before the agreement is entered into. The authorisation is valid for up to 18 months. With the approval of this motion, a previous corresponding authorisation expired, which was approved at the annual general meeting on 2 March 2018.

Corporate governance and non-financial information

The Board of Directors of Origo hf. emphasizes maintaining good management practices and aims to comply with the Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers in June 2015. The Guidelines can be found on the website of the Iceland Chamber of Commerce www.vi.is. According to a resolution at Origos Annual General Meeting on 2 March 2018, an appointment committee was established, which appoints candidates to the Company's Board of Directors. The appointment committee's role is among other things to evaluate prospective candidates regarding competence, experience, knowledge and independence. Also to ensure gender equality within the company's Board and prepare and submit proposals, based on the above evaluation, on election of Board members at the Company's Annual General Meeting. The Company's shares are listed in the Iceland Stock Exchange and therefore the Company shall comply with the Stock Exchange's rules on corporate governance, which can be found on the Stock Exchange's website. Further information on corporate governance and non-financial information is included in appendices to the financial statements.

Statement by the Board of Directors and the CEO

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies.

According to the best of our knowledge it is our opinion that the consolidated financial statements give a true and fair view of the consolidated financial performance of the Group for the financial year 2019, its assets, liabilities and consolidated financial position as at 31 December 2019, and its consolidated cash flows for the financial year 2019.

Furthermore, in our opinion the consolidated financial statements and the endorsement by the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO of Origo hf. have today discussed the consolidated financial statements of the Company for the year 2019 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the consolidated financial statements be approved at the Company's annual general meeting.

Reykjavík, 29 January 2020

Board of Directors:

Ívar Kristjánsson

Hildur Dungal
Guðmundur Jóhann Jónsson
Hjalti Þórarinsson
Svafa Grönfeldt

CEO:

Finnur Oddson

Independent Auditor’s Report

To the Board of Directors and Shareholders of Origo hf.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Origo hf. (the Group) for the year 2019. The consolidated financial statements comprise the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of cash flows, summary of significant accounting policies and other notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of 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 the Group in accordance with the Code of ethics for Icelandic auditors and we have also fulfilled other ethical requirements of those rules. 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. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the matter was addressed in the audit
Impairment test of goodwill At year-end 2019, the Company's goodwill amounted to ISK 1,881 million. Goodwill must be tested annually for impairment in order to evaluate whether the value of goodwill will be recovered through future cash flow. Goodwill is 16% of the Group's total assets and 28% of the Group's equity at year-end. Goodwill has arisen upon acquisition of entities and has been divided between the relevant smallest separable cash generating units by the Company's management. Impairment test of goodwill is a key audit matter in the audit of the consolidated financial statements since goodwill is a large part of total assets and due to inherent uncertainties in management's plans for performance and other management key assumptions regarding present value of the projected cash flows for each cash generating unit Information on impairment test performed on the Group's goodwill at year-end is in note 13 and information on significant accounting policies is in note 33.	We along with our valuation experts evaluated the management's key assumptions in calculating present value of projected cash flows for each cash generating unit. This work included among other things: • Key assumptions for projected cash flows and operating plans for the next 5 years were reviewed. This work entailed an evaluation of key assumptions regarding income, operating expenses, gross profit and investments for the projected period. • Key assumptions regarding projected future growth following the projected period were evaluated. • In reviewing the projected cash flows and operating plans, among other things deviations from previous years' plans are taken into account. • WACC for each cash generating unit was reviewed which is used in evaluating present value of cash generating units. WACC was compared to the Company's finance expenses and other market related assumptions. • Management key assumptions were compared to external and internal data. • The Company's calculation model was reviewed and results recalculated. • We reviewed the note in the financial statements and confirmed that all information required by accounting policies was included.

Key Audit Matters	How the matter was addressed in the audit
Valuation of shares in Tempo ehf. At year-end 2019, the carrying amount of equity in Tempo ehf. amounted to ISK 2.698 million. Following the sale of 55% share in Tempo ehf. during the year 2018, the 45% share of Origo hf. in the company was revalued at fair value and later according to equity method. Valuation of share in Tempo ehf. is a key audit matter in the audit of the consolidated financial statements since the share is a large part of the Company's assets and valuation must be performed in order to determine whether there are indications of impairment of the share. Share in Tempo ehf. amounted to 23% of total assets and 39% of equity at year-end 2019. Share in associate is discussed in note 14 and significant accounting policies in note 33.	Our audit procedures were aimed ad evaluating whether there are indications of impairment of the share. This work included among other things: • Management key assumptions regarding valuation of shares in Tempo ehf. were evaluated and compared to external and internal data. • Assumptions regarding projected future growth following the projected period were evaluated. • We reviewed the notes in the financial statement and confirmed that all information required by accounting policies was included.

Other information in the annual report

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board and CEO's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Independent Auditor’s Report, contd.

Report on Other Legal and Regulatory Requirements

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

The engagement partner on the audit resulting in this independent auditor’s report is Jón Arnar Óskarsson.

Reykjavik, 29 January 2020

KPMG ehf.

Jón Arnar Óskarsson

Consolidated Statement of Comprehensive Income for the year 2019

	Notes	2019	2018
Sales of goods and services	7	14.845.075	15.716.686
Cost of goods sold and cost of services	8	(10.999.874)	(11.543.321)
Gross profit		3.845.201	4.173.365
Operating expenses	9	(3.425.768)	(3.682.216)
Profit before finance income and finance expenses		419.433	491.149
Effects of the sale of shares in Tempo ehf		0	5.097.947
Finance income		476.024	79.545
Finance expenses		(151.478)	(113.039)
Net finance income	11	324.546	5.064.453
Share of profit (loss) in associate	14	8.779	(21.522)
Profit before income tax		752.758	5.534.080
Income tax	22	(74.493)	(93.610)
Profit for the year		678.265	5.440.470
Other comprehensive income:			
Foreign currency translation difference of foreign operations		117.884	6.256
Realized foreign transl. difference from liquidation/sale of subsidiary		(339.969)	(26.679)
Total other comprehensive income		(222.085)	(20.423)
Total comprehensive income for the year		456.180	5.420.047
EBITDA*		1.006.261	1.128.412
Breakdown of profit:			
Shareholders in parent company		684.537	5.440.470
Minority interest		(6.272)	0
Profit for the year		678.265	5.440.470
Breakdown of total comprehensive income:			
Shareholders in parent company		462.452	5.420.047
Minority interest		(6.272)	0
Total comprehensive income for the year		456.180	5.420.047
Earnings per share:			
Basic earnings per share	19	1,50	11,74
Diluted earnings per share	19	1,50	11,65

* EBITDA is profit before finance income and finance expenses less depreciation.
The notes on pages 13 - 44 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Origo hf. 2019 9 Amounts are in ISK thousand

Consolidated Statement of Financial Position
as at 31 December 2019

	Notes	2019	2018
Assets:			
Property and equipment	12	2.029.410	533.074
Intangible assets	13	2.844.893	2.436.871
Deferred income tax asset	22	18.051	43.426
Investment in associate	14	2.684.027	2.697.564
Securities and long-term receivables	21	161.222	13.023
Non-current assets		7.737.603	5.723.958
Inventories	15	1.321.497	1.646.801
Trade receivables and other receivables	16	1.999.686	1.802.366
Cash and cash equivalents	17	825.847	3.175.454
Current assets		4.147.030	6.624.621
Total assets		11.884.633	12.348.579
Equity:			
Share capital		436.105	462.918
Share premium		152.936	821.044
Reserves		2.632.498	2.701.942
Retained earnings		3.568.871	4.175.131
Equity of shareholders in the parent company	18	6.790.410	8.161.035
Minority interest		26.969	33.241
Total Equity	18	6.817.379	8.194.276
Liabilities:			
Non-current loans and borrowings	20	579.439	756.987
Lease liabilities	21	1.392.432	0
Non-current liabilities		1.971.871	756.987
Current maturities of lease liabilities	21	310.118	0
Current loans and borrowings	20	60.702	124.054
Trade payables and other payables	23	2.724.563	3.273.262
Current liabilities		3.095.383	3.397.316
Total liabilities		5.067.254	4.154.303
Total equity and liabilities		11.884.633	12.348.579

The notes on pages 13 - 44 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Origo hf. 2019 10 Amounts are in ISK thousand

Consolidated Statement of Changes in Equity for the year 2019

Year 2018	Notes	Share Capital	Share premium	Reserves*	Retained earnings	Equity of shareholders in the parent company	Minority interest	Total equity
Equity at 31 December 2017		458.609	769.670	656.420	1.043.422	2.928.121	0	2.928.121
Effects of adoption of IFRS 15					(256.565)	(256.565)		(256.565)
Equity at 1 January 2018		458.609	769.670	656.420	786.857	2.671.556	0	2.671.556
Total comprehensive income				(20.423)	5.440.470	5.420.047		5.420.047
Recognised in restricted reserves .	18			22.497	(22.497)	0		0
Restricted reserves transferred at sale	18			(118.380)	118.380	0		0
Change in fair value	14			2.161.828	(2.161.828)	0		0
Accrued cost due to share purchase agreements	10				13.749	13.749		13.749
Minority interest recognised								0
in consolidated statement						0	33.241	33.241
Sold new shares	18	6.563	105.637			112.200		112.200
Acquisition of treasury shares	18	(2.254)	(54.263)			(56.517)		(56.517)
Equity at 31 December 2018	18	462.918	821.044	2.701.942	4.175.131	8.161.035	33.241	8.194.276

Year 2019	Notes	Share Capital	Share premium	Reserves*	Retained earnings	Equity of shareholders in the parent company	Minority interest	Total equity
Equity at 31 December 2018		462.918	821.044	2.701.942	4.175.131	8.161.035	33.241	8.194.276
Effects of adoption of IFRS 16	4				(141.186)	(141.186)		(141.186)
Equity at 1 January 2019		462.918	821.044	2.701.942	4.033.945	8.019.849	33.241	8.053.090
Total comprehensive income				(222.085)	684.537	462.452	(6.272)	456.180
Recognised in restricted reserves .	18			152.641	(152.641)	0		0
Accrued cost due to share purchase agreements	10				3.113	3.113		3.113
Dividends paid	18				(1.000.083)	(1.000.083)		(1.000.083)
Sold treasury shares	18	4.253	68.447			72.700		72.700
Acquisition of treasury shares	18	(31.066)	(736.555)			(767.621)		(767.621)
Equity at 31 December 2019	18	436.105	152.936	2.632.498	3.568.871	6.790.410	26.969	6.817.379

Consolidated Financial Statements of Origo hf. 2019 11 Amounts are in ISK thousand

Consolidated Statement of Cash Flows for the year 2019

	Notes	2019	2018
Operating activities:			
Profit for the year		678.265	5.440.470
Adjustments for:			
Depreciation	13	586.828	637.263
Net finance expenses	11	(324.546)	(5.064.453)
Share of profit (loss) of associate	14	(8.779)	21.522
Income tax	22	74.493	93.610
		1.006.261	1.128.412
Changes in operating assets and liabilities:			
Inventories, decrease (increase)		389.466	(671.482)
Trade receivables and other receivables, (increase) decrease		(163.078)	(32.127)
Trade payables and other payables, (decrease) increase		(532.586)	869.387
Changes in operating assets and liabilities		(306.198)	165.778
Interest income received		58.055	33.748
Interest expenses paid		(129.332)	(111.096)
Net cash provided by operating activities		628.786	1.216.842
Investing activities:			
Investment in property and equipment	12	(332.915)	(230.274)
Proceeds from sale of property and equipment	12	0	13.377
Investment in intangible assets	13	(192.626)	(731.753)
Investment in operating units less cash from merger	6	(337.654)	(130.652)
Share decrease in associate	14	63.574	0
Investment in Tempo ehf. after sale	14	0	(111.240)
Sale of Tempo less cash equivalents at sale	14	77.578	3.643.330
Securities and long-term receivables, change		(39)	0
Investing activities		(722.082)	2.452.788
Financing activities:			
Acquisition of treasury share	19	(767.621)	(56.517)
Sold treasury shares	19	72.700	0
Paid-in capital	19	0	112.200
Dividends paid	20	(1.000.083)	0
New long-term borrowings	20	0	185.785
Repayment of long-term of borrowings	20	(561.490)	(1.043.870)
Financing activities		(2.256.494)	(802.402)
(Decrease) increase in cash and cash equivalents		(2.349.790)	2.867.228
Effect of exchange rate fluctuations on cash held		183	11.483
Cash and cash equivalents at beginning of the year		3.175.454	296.743
Cash and cash equivalents at the end of the year	18	825.847	3.175.454
Investment and financing activities less payment effect			
Investment in subsidiary		(100.000)	0
Other receivables		100.000	0

The notes on pages 13 - 44 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Origo hf. 2019 12 Amounts are in ISK thousand

Notes

1. Reporting entity

Origo hf. (the “Company”) is an Icelandic limited liability company. The address of the Company’s main office is Borgartún 37, Reykjavik. The consolidated financial statements of the Company as at and for the year ended 31 December 2019 comprise the Company and its subsidiaries, together referred to as the “Group” and individually as “Group entities”.

The Company´s aim is to provide to its customers complete solutions in the fields of information technology with software development and by providing hardware, software, office equipment, technical advice and related services.

2. Basis of preparation

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The consolidated financial statements also comply with the Icelandic Financial Statements Act and regulation on presentation and content of financial statements and consolidated financial statements. Summary of significant accounting policies is presented in note 34.

The financial statements were approved by the Board of Directors on 29 January 2020.

b. *Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis except for forward contracts, which are measured at fair value. The methods used to measure fair values are discussed further in note 3.

c. *Functional and presentation currency*

These consolidated financial statements are presented in Icelandic króna (ISK), which is the Company’s functional currency. All financial information presented has been rounded to the nearest thousand.

d. *Use of estimates and judgements*

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation where uncertainty in applying accounting policies has the most significant effect on the amounts recognised in the financial statements is included in note 13 on measurement of the recoverable amounts of cash generating units containing goodwill.

The determination of fair value is based on presumptions which are dependent on the judgement of management on development of various factors regarding future events. Actual results of sale of assets and settlement payments of debt can be different from this estimation.

3. Determination of fair values

A number of the Group’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property and equipment

Property and equipment and intangible assets which are taken over at merger are recognised at fair value at the date of acquisition.

(ii) Forward contracts

The fair value of forward contracts is recognised through profit or loss and is evaluated at a price provided by a broker.

3. Determination of fair values

(iii) Non-derivative financial liabilities

Fair value of financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, taking into account the market rate of interest at the reporting date.

(iv) Investment in associate

Fair value at initial recognition of shares in the associate Tempo ehf. is determined by sale price less premium due to control of comparable business transactions.

4. New financial reporting standards

IFRS 16 Leases

The Group has applied IFRS 16 for the financial year commencing 1 January 2019. Other international reporting standards effective as of 1 January 2019 do not have material effect on the Group's financial statements.

IFRS 16 implements one accounting model in relation to recognision of leases in lessee's statement of financial position. The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. The Group's equity decreased by ISK 141 million due to the application. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease. According to IFRS 16 an arrangement is a lease or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

Leases where the Group is a lessee

The Group recognises assets and liabilities due to leases on office premises and warehouses. The right-of-use is recognised as property and equipment and lease liability is recognised as a separate item on the balance sheet.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

4. New financial reporting standards, contd.

The lease liability is increased due to interest payments and decreased due to lease payments. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

The Group has exercised judgment in determining lease periods of some leases where the Group is a lessee and the contracts contain extension options. Assessment of whether the Group is reasonably certain that it will exercise extension options affects the lease period, which significantly effects the amount of recognised lease liabilities and assets.

On transition to IFRS 16, lease liabilities which were classified as finance leases under IAS 17 are measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencment date, discounted using the lessee's incremental borrowing rate at the date of initial application.

Leases where the Group is a lessor

Transition to IFRS 16 has no significant effect on leases where the Group is a lessor except for a recognition of lease receivables due to sublease of property. The Group has recognised these leases as operating leases.

Effect of transition

If the standard had not been implemented on 1 January 2019 the effect would have been that EBITDA for the year would have been ISK 316 million lower and profit for the year ISK 3 million lower. Effect on the 2019 income statement is specified as follows:

Income statement	2019	Effects of new standard	For IFRS 16 2019
Sales of goods and services	14.845.075	0	14.845.075
Cost of goods sold and cost of services	(10.999.874)	0	(10.999.874)
Gross profit	3.845.201	0	3.845.201
Operating expenses	(3.425.768)	(65.989)	(3.491.757)
Profit before finance income and finance expenses	419.433	(65.989)	353.444
Net finance income	324.546	62.616	387.162
Share of profit (loss) in associate	8.779	0	8.779
Profit before income tax	752.758	(3.373)	749.385
Income tax	(74.493)	675	(73.818)
Profit for the year	678.265	(2.698)	675.567
EBITDA	1.006.261	(316.277)	689.984

Consolidated Financial Statements of Origo hf. 2019 15 Amounts are in ISK thousand

4. New financial reporting standards, contd.

Effect of transition

Right-of-use assets are recognised among property and equipment, but these are leases on office premises and warehouses. Effect of transition to the standard on the Group's statement of financial position is specified as follows:

Effect of transition 1 January 2019

Consolidated Statement of Financial Position	**31.12.2018**	**Effect of new standard**	**1.1.2019**
Property and equipment	533.074	1.099.720	1.632.794
Deferred income tax asset	43.426	35.296	78.722
Securities and long-term receivables	13.023	172.934	185.957
Other non-current assets	5.134.435	0	5.134.435
Non-current assets	5.723.958	1.307.950	7.031.908
Inventories	1.646.801	0	1.646.801
Trade receivables and other receivables	1.802.366	29.259	1.831.625
Cash and cash equivalents	3.175.454	0	3.175.454
Current assets	6.624.621	29.259	6.653.880
Total assets	12.348.579	1.337.209	13.685.788
Equity	8.194.276	(141.186)	8.053.090
Non-current loans and borrowings	756.987	0	756.987
Lease liability	0	1.011.211	1.011.211
Non-current liabilities	756.987	1.011.211	1.768.198
Current maturities of lease liabilities	0	467.184	467.184
Current loans and borrowings	124.054	0	124.054
Trade payables and other payables	3.273.262	0	3.273.262
Current liabilities	3.397.316	467.184	3.864.500
Total liabilities	4.154.303	1.478.395	5.632.698
Total equity and liabilities	12.348.579	1.337.209	13.685.788

Recording lease liabilities due to leases which were classified as operating leases the Group discounted the lease payments using incremental borrowing rate as at 1 January 2019. Weighted average interest rate is 4.5%.

	1 January 2019
Liabilities due to operating leases 31 December 2018 according to IAS 17 in the Group's financial statements	1.773.633
Discounted by using incremental borrowing rate at 1 January 2019	1.478.395

Consolidated Financial Statements of Origo hf. 2019 16 Amounts are in ISK thousand

5. Segment reporting

Business segments

The Group comprises the following three main business segments which sell goods and services in different markets:

- End-User solutions and related services
- Business solutions and infrastructure
- Software solutions and related services

2019	End-User solutions and related services	Business solutions and infrastructure	Software solutions and related services	Total
Sales of goods and services	5.568.050	4.606.672	4.670.353	14.845.075
Segment results (EBITDA)	(37.794)	275.438	768.617	1.006.261
Depreciation	(92.580)	(298.702)	(195.546)	(586.828)
Finance expenses				(15.423)
Share of profit (loss) of associates				8.779
Income tax				(74.493)
Profit for the year				338.296
Foreign currency translation differences of foreign operations				117.884
Total comprehensive income for the year				456.180

2018	End-User solutions and related services	Business solutions and infrastructure	Software solutions and related services	Total
Sales of goods and services	4.693.410	4.762.163	6.261.113	15.716.686
Segment results (EBITDA)	56.297	285.840	786.275	1.128.412
Depreciation	(27.757)	(163.948)	(445.558)	(637.263)
Effects of the sale of Tempo ehf.				5.097.947
Finance expenses				(33.494)
Share of profit (loss) of associates				(21.522)
Income tax				(93.610)
Profit for the year				5.440.470
Foreign currency translation differences of foreign operations				(20.423)
Total comprehensive income for the year				5.420.047

The Group's assets are not distinguishable to segments.

Geographical division - revenue

	2019	2018
Iceland	13.570.508	12.713.896
Other countries	1.274.567	3.002.790
Total income	14.845.075	15.716.686

Consolidated Financial Statements of Origo hf. 2019 17 Amounts are in ISK thousand

6. Merger of operating units

In Q3 the Company invested in two companies (Strikamerki ehf. and Bus Travel IT ehf.) and one operating unit (Tölvutek). In accordance with International Financial Reporting Standard IFRS 3 *Business Combinations,* the purchase price was distributed to identifiable assets and liabilities.

Effect of mergers of operating units is specified as follows:

	Acquired
Software	95.922
Property and equipment	19.419
Inventories	63.695
Trade receivables and other receivables	34.960
Cash and cash equivalents	92.933
Acquired assets	306.929
Trade payables and other payables	39.730
Acquired liabilities	39.730
Total net identifiable assets	267.199
Purchase price paid with cash	430.588
Unpaid purchase price	100.000
Total purchase price	530.588
Goodwill on acqusition	263.389

Effect on the Group's statement of comprehensive income is specified as follows:	2019
Operation revenues	624.779
Operation expenses	(651.999)
Operation loss	(27.220)
Net finance income	24.446
Loss for the year	(2.774)

7. Sales of goods and services

Sales of goods and services are specified as follows:	2019	2018
Sales of goods	8.487.037	9.280.959
Sales of services	6.358.038	6.435.727
Total sales of goods and services	14.845.075	15.716.686

8. Product use and cost of sale

Product use and cost of sale is specified as follows:

Purchase of products	6.409.053	6.497.333
Salaries and salary related expenses	4.309.402	4.473.776
Depreciation	281.419	572.211
Product use and cost of sale	10.999.874	11.543.321

Consolidated Financial Statements of Origo hf. 2019 18 Amounts are in ISK thousand

9. Operating expenses

Operating expenses are specified as follows:

Salaries and salary related expenses	2.092.434	1.983.511
Operation of properties	73.960	416.665
Sales and marketing expenses	208.661	299.243
Depreciation	305.409	65.052
Other employee related expenses	155.937	212.227
Travelling expenses	69.871	99.373
Contracted advise and services	124.321	186.951
Other operating expenses	395.175	419.195
Total operating expenses	3.425.768	3.682.216

10. Salaries and salary-related expenses

Salaries and salary-related expenses are specified as follows:	2019	2018
Salaries	5.569.551	5.866.167
Contributions to defined contribution plans	601.664	633.707
Other salary-related expenses	448.588	472.478
Total salaries and salary-related expenses	6.619.803	6.972.352
Reimbursed development costs, tax benefits (Rannís)	(92.682)	(80.768)
Salaries and salary-related expenses capitalised as development costs	(125.285)	(434.297)
Salaries and salary-related expenses in statement of comprehensive income	6.401.836	6.457.287
Average number of employees	519	567
Positions at the end of the year	532	495

Salaries and salary-related expenses are allocated in the statement of comprehensive income as follows:

Cost of goods and cost of sold services	4.309.402	4.473.776
Operating expenses	2.092.434	1.983.511
Total salaries and salary-related expenses	6.401.836	6.457.287

In accordance with resolution of the Annual General Meeting on 4 March 2016, a share purchase scheme was finalised which applies to all full-time employees of the Company. In the year 2019, ISK 3 million were expensed in the statement of comprehensive income due to the share purchase agreements. The purchase scheme expired in 2019 but the share purchase rate according to it was 17.095 per share.

Fair value of share purchase agreements is estimated by using the Black-Scholes method. The estimation takes into account exchange rate of shares at the valuation date, share purchase rate, expected fluctuation, duration of the agreements, expected dividend payments and risk free interests.

Consolidated Financial Statements of Origo hf. 2019 19 Amounts are in ISK thousand

11. Finance income and finance expenses

Finance income is specified as follows:

	2019	2018
The effect of sale of Tempo ehf., see note 5	0	5.097.947
Interest income on receivables and long-term notes	58.055	33.748
Change in commitment due to investments	58.000	0
Realized foreign translation difference from liquidation of subsidiary	339.969	0
Foreign exchange gain	0	45.797
Other financial income	20.000	0
Total finance income	476.024	79.545
Finance expenses are specified as follows:		
Lease interest expenses	(71.034)	0
Interest expenses	(58.298)	(113.039)
Exchange loss	(22.146)	0
Total finance expenses	(151.478)	(113.039)
Total net finance income (expenses)	324.546	5.064.453

* In the year 2019 the subsidiary Nyherji A/S was liquidated and thus accumulated foreign translation difference is recognised among retained earnings through finance expenses. There has been no operation in Denmark in the last years.

12. Property and equipment

Property and equipment and their depreciation is specified as follows:

	Leased properies	Properties	Tools, equipment and interiors	Total
Cost				
Balance at 1.1.2018	0	28.348	2.926.986	2.955.334
Additions during the year	0	0	230.274	230.274
Disposals	0	0	(31.967)	(31.967)
Effects of the sale of Tempo ehf.	0	0	(41.689)	(41.689)
Effect of changes in foreign exchange rates	0	0	4.474	4.474
Balance at 31.12.2018	0	28.348	3.088.078	3.116.426
Effect of transition to IFRS 16	1.099.720	0	0	1.099.720
Additions during the year	466.302	0	332.915	799.217
Acquisition of operating units	0	0	19.419	19.419
Remeasured due to acquisition of operating units	0	0	20.000	20.000
Reclassified	0	0	(10.965)	(10.965)
Effect of remeasurement of lease liabilities	32.254	0	0	32.254
Effect of changes in foreign exchange rates	(458)	0	(10)	(468)
Balance at 31.12.2019	1.597.818	28.348	3.449.437	5.075.603
Depreciation and impairment losses				
Balance at 1.1.2018	0	7.065	2.358.148	2.365.213
Depreciation	0	378	245.835	246.213
Disposals	0	0	(18.590)	(18.590)
Effect of sale of Tempo ehf.	0	0	(9.484)	(9.484)
Balance at 31.12.2018	0	7.443	2.575.909	2.583.352
Depreciation	250.288	378	212.178	462.844
Effect of changes in foreign exchange rates	0	0	(3)	(3)
Balance at 31.12.2019	250.288	7.821	2.788.084	3.046.193

Consolidated Financial Statements of Origo hf. 2019 20 Amounts are in ISK thousand

12. Property and equipment, contd.:

	Leased properies	Properties	Tools, equipment and interiors	Total
Carrying amounts				
At 1.1.2018	0	21.283	568.838	590.121
At 31.12.2018	0	20.905	512.169	533.074
At 31.12.2019	1.347.530	20.527	661.353	2.029.410
Depreciation ratios		1,3%	15 - 25%	

Insurance value and valuation of assets

Insurance value, official tax valuation and carrying amounts of buildings and land at year-end 2019 were as

	2019	2018
Insurance value of buildings	51.688	47.890
Official tax valuation of buildings and land	21.040	19.770
Carrying amount of buildings and land	20.527	20.905
Insurance value of inventory, tools, equipment and interiors	2.258.001	2.214.589

Mortgages and guarantees

There are no mortgages and guarantees on remaining debt against the Group´s assets at year-end 2018 and 2019.

13. Intangible assets

Intangible assets, amortisation and impairment losses are specified as follows:

	Goodwill	Software	Total intangible assets
Cost			
Balance at 1.1.2018	1.985.610	2.062.366	4.047.976
Taken over at acquisition of operating units	0	115.184	115.184
Investment in internal software development	0	440.165	440.165
Additions during the year	0	291.588	291.588
Effects of the sale of Tempo ehf.	(277.360)	(2.124.652)	(2.402.012)
Effect of changes in foreign exchange rates	45.925	200.116	246.041
Balance at 31.12.2018	1.754.175	984.767	2.738.942
Taken over at acquisition of operating units	263.389	95.922	359.311
Investment in internal software	0	125.285	125.285
Additions during the year	0	67.341	67.341
Reclassified	0	(20.565)	(20.565)
Effect of changes in foreign exchange rates	634	0	634
Balance at 31.12.2019	2.018.198	1.252.750	3.270.948
Amortisation and impairment losses			
Balance at 1.1.2018	137.481	827.312	964.793
Amortisation	0	391.050	391.050
Effects of the sale of Tempo ehf.	0	(1.113.498)	(1.113.498)
Effect of changes in foreign exchange rates	0	59.726	59.726
Balance at 31.12.2018	137.481	164.590	302.071
Amortisation	0	123.984	123.984
Balance at 31.12.2019	137.481	288.574	426.055

Consolidated Financial Statements of Origo hf. 2019 21 Amounts are in ISK thousand

13. Intangible assets, contd.

Carrying amounts	Goodwill	Software	Total intangible assets
At 1.1.2018	1.848.129	1.235.054	3.083.183
At 31.12.2018	1.616.694	820.177	2.436.871
At 31.12.2019	1.880.717	964.176	2.844.893
Depreciation ratios		10 - 25%	

A part of Origo hf.'s operations is developing and selling software. In accordance with international financial reporting standards ISK 125 million were capitalised due to development of own software and in addition the Company invested in other software for ISK 163 million during the year. When estimating the values of development costs, costs are measured from the day a project fulfils all requirements for capitalisation.

Intangible assets developed within the Group are recognised at historical costs less the accumulated depreciation as if a purchased asset. The carrying amount of intangible assets is reviewed at each reporting date in order to estimate possible impairment. If there is a possible impairment the recoverable amount of the asset is revalued. Impairment tests for goodwill are conducted at least annually.

Depreciation and amortisation are specified as follows in the statement of comprehensive income:

	2019	2018
Depreciation of property and equipment, note 12	462.844	246.213
Amortisation of intangible assets	123.984	391.050
Total depreciation and amortisation in statement of comprehensive income	586.828	637.263

Depreciation and amortisation are allocated to line items as follows:

	2019	2018
Cost of goods and cost of sold services	281.419	572.211
Operating expenses	305.409	65.052
Total depreciation and amortisation	586.828	637.263

Consolidated Financial Statements of Origo hf. 2019 22 Amounts are in ISK thousand

13. Intangible assets, contd.

Impairment test

At year-end 2019, the Company's goodwill was tested for impairment. Goodwill arising upon acquisition has been divided between the relevant subsidiaries, which are defined as the smallest separable cash generating units by the Group's management. The parent company and the subsidiaries merged in 2017 creating one cash generating unit.

The aggregate carrying amount of goodwill allocated to each cash generating unit is as follows:

	2019	2018
Goods and related services	1.662.913	1.399.524
Software, related services and consultancy	217.804	217.170
Total goodwill	1.880.717	1.616.694

The recoverable amounts for cash generating units are based on their value in use. Value in use is determined by discounting the future cash flows generated from the continuing use of the units. Cash flows were projected based on actual operating results and a 5-year business plan, and after the projected period a constant future growth rate is presumed in calculating residual value. The main presumptions are growth in income, EBIDTA ratio, future investments and growth rate after the 5 year projection period. WACC is taken into account in estimating present value. WACC is based on each cash generating unit where external and internal data is relied upon. The same methodology is used as in prior year.

Operating plans are reviewed and approved by the Company's Board of Directors. According to the results of the tests at year-end 2019, goodwill has not been impaired.

In evaluating value in use management relies on projections on future development in the field of information technology, based on both internal and external data. Last years' experience is taken into account. Following are the key assumptions for evaluation of value in use:

Assumptions at year end 2019:	**Goods, software, related services and consultancy - domestic**	**Software, related services and consultancy - abroad**
Future growth rate	4,9%	3,0%
Revenue growth rate:		
Weighted average 2020	7,4%	15,9%
2021 - 2024	5.0 - 5.3%	4.0 -4.5%
WACC	8,1%	5,8%
Debt leverage	9,0%	9,0%
Interest rate	5,3%	2,9%
Assumptions at year end 2018:		
Future growth rate	5,0%	3,5%
Revenue growth rate:		
Weighted average 2019	7,6%	9,0%
2020 - 2023	5.0 - 5.3%	4.0 -5.0%
WACC	10,2%	7,4%
Debt leverage	13,0%	14,0%
Interest rate	7,0%	3,3%

Realistic changes in key assumptions would not have led to impairment at year-end 2019 and 2018.

Notes, contd.:

Consolidated Financial Statements of Origo hf. 2019 23 Amounts are in ISK thousand

14. Share in associate

On 19 November 2018 the Company sold 55% share in Tempo ehf. to Diversis Capital, an investment company in Los Angeles which specialises in investments in software and technology companies. Tempo ehf. is thus a part of the Origo Group until 19 November 2018. Sales price amounted to ISK 3,643 million net of selling costs. Total effect on Origo hf.'s performance in the 2018 statement of comprehensive income amounted to ISK 5,104 million.

At the sale the 45% share in Tempo ehf. was remeasured at fair value and subsequently according to equity method. The share is classifeid as a share in associate.

Share in associate is specified as follows:

	2019	2019
Book value 1.1.	2.697.564	0
Share in Tempo ehf. recognised as associate	0	526.578
Assesment change of share following sale	0	2.071.534
Capital investment in Tempo ehf.	0	111.240
Share capital decrease at Tempo ehf.	(63.574)	0
Share in profit/loss of associate	(68.799)	(21.522)
Translation difference	118.836	9.734
Book value 30.12.	2.684.027	2.697.564

Share in associate is divided as follows:

Share in Tempo ehf.'s equity	424.163	492.893
Goodwill	1.407.650	1.367.808
Other intangible assets	852.214	836.863
Share in associate	2.684.027	2.697.564

Effects on statement of comprehensive income are specified as follows:

Share in profit/loss of associate	(68.799)	(21.522)
Settlement of sale of Tempo ehf. - profit of sale	77.578	0
Share in profit/loss of associate according to financial statements	8.779	(21.522)

15. Inventories

Inventories at year-end are specified as follows:

	2019	2018
Inventories in warehouse and shops	1.239.765	1.549.599
Spare parts	51.942	69.145
Work in progress	167.068	172.369
Allowances for impairments	(137.278)	(144.312)
Total inventories	1.321.497	1.646.801

Work in progress consists of cost of service projects accrued at year-end.

Consolidated Financial Statements of Origo hf. 2019 24 Amounts are in ISK thousand

16. Trade receivables and other receivables

Trade receivables and other receivables are specified as follows:

Trade receivables	1.806.545	1.721.354
Allowance for impairments	(28.400)	(41.400)
Other receivables	221.541	122.412
Total trade receivables and other receivables	1.999.686	1.802.366

The Group's exposure to credit and currency risks and impairment losses related to trade receivables and other receivables is disclosed in notes 25 and 27.

Trade receivables and inventories amounting to ISK 640 million (2018: ISK 670 million) are pledged for loans to the Company.

17. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

Demand deposits	820.238	3.166.915
Cash	5.609	8.539
Cash and cash equivalents	825.847	3.175.454

18. Equity

(i) Share capital

The Company's share capital according to its Articles of Association amounts to ISK 459 million. Each share has the nominal value of one ISK. One vote is attached to each share in the Company. The Company holds treasury shares in the nominal value of ISK 24 million, recognised as decrease in equity.

The Company acquired 31.1 million share at ISK 768 million in the year 2019 in accordance with the Company's repurchase scheme.

(ii) Share premium

Share premium represents excess of payments above nominal value that shareholders have paid for shares sold by the Company. According to the Icelandic Act on Limited Liability Companies, 25% of the nominal share capital must be held in reserve which may not be paid out as dividend to shareholders.

According to law, share premium of paid in share capital can be offset against accumulated deficit.

(iii) Reserves

Reserves consist of translation differences of subsidiaries and restricted share reserve at year end.

Restricted share reserve contain share in aggregate profit of subsidiaries and associates which are in excess of paid dividend from these entities at the reporting date.

Reserves are specified as follows:

	Translation reserve	Restricted share reserve	Restricted equity due to development costs	Total
Balance at 1.1.2018	412.781	243.639	0	656.420
Changes during the year	(20.423)	2.065.945	0	2.045.522
Balance at 31.12.2018	392.358	2.309.584	0	2.701.942
Changes during the year	(222.085)	27.356	125.285	(69.444)
Balance at 31.12.2019	170.273	2.336.940	125.285	2.632.498

Notes, contd.:

Consolidated Financial Statements of Origo hf. 2019 25 Amounts are in ISK thousand

18. Equity, contd.:

(iv) Retained earnings

Retained earnings consist of the Group's retained profit and accumulated deficit from the establishment of the parent company, less dividend payments and transfers to and from other equity items.

(v) Capital management

The Board of Directors has established an equity management policy to ensure a strong equity position and support stable future operating development. The Board's aim is that, as a rule, 20-40% of the profit for each year be paid as dividend to shareholders. The Board's long-term objective is that the Group's equity ratio will not be lower than 40.0%. The Company's equity ratio was 57.4% at year-end 2019 compared to 66.1% at year-end 2018. Capital management takes into account the carrying amount of equity.

The Annual General Meeting on 7 March 2019 resolved to authorise the Board of Directors to purchase up to 10% of the nominal value of the shares in the Company, cf. Chapter VIII of Act No. 2/1995 on Limited Liability Companies. The purchase rate shall be based on the last registered rate at Nasdaq OMX Iceland hf. before the agreement is concluded. The authorisation is valid for 18 months. With the approval of this motion a previous similar authorisation expired, which was approved at the Company's Annual General Meeting on 2 March 2018.

No amendments were made to the Group's capital management policy in the year.

The Company and its subsidiaries are not required to meet with external rules on minimum equity balance.

(vi) Dividend

In the year 2019 a dividend was paid to shareholders amounting to ISK 1,000 million (2018: no dividend). The Company's Board of Directors proposes dividend of ISK 180 million will be paid to shareholders in the year 2020.

19. Earnings per share

Earnings per share is based on the profit attributable to shareholders of the parent company and weighted average number of shares outstanding during the year and reflects the earnings per each share of ISK one. Diluted earnings per share is based on the profit attributable to shareholders of the parent company and weighted average number of shares outstanding during the year after adjustment for the effects of the dilutive potential shares of share options of the Company´s employees.

	2019	2018
Profit attributable to the shareholders of the parent company	678.265	5.440.470
Shares at the beginning of the year	462.918	458.609
Effects of issued shares	3.146	4.922
Effects of acquisition of treasury shares	(15.073)	0
Weighted average of outstanding shares in the year	450.991	463.531
Effect of share purchase agreements	0	3.346
Weighted average number of outstanding shares prior to diluted earnings	450.991	466.877
Earnings per share	1,50	11,74
Diluted earnings per share	1,50	11,65

20. Loans and borrowings

This note provides information on the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see notes 24 to 28.

Non-current loans and borrowings are specified as follows:	2019	2018
Loans and borrowings	640.141	881.041
Current maturities of non-current liabilities	(60.702)	(124.054)
Total non-current loans and borrowings	579.439	756.987

Loans and borrowings at year-end are specified as follows by currencies:

		2019		2018	
	Final maturity	Average interest rate	Carrying amount	Average interest rate	Carrying amount
Loans in ISK, unindexed	2030	4,9%	241.191	6,0%	263.628
Loans in SEK	2030	3,6%	221.974	3,4%	241.917
Loans in EUR	2030	3,4%	139.497	3,5%	149.552
Loans in DKK	2021	3,4%	36.017	2,8%	224.409
Loans in USD	2030	5,5%	1.462	6,0%	1.535
Total loans and borrowings			640.141		881.041

Consolidated Financial Statements of Origo hf. 2019 27 Amounts are in ISK thousand

20. Loans and borrowings, contd.

Non-current loans and borrowings are payable in the following years as follows:

	2019	2018
Year 2019	0	124.054
Year 2020	60.702	122.519
Year 2021	59.239	122.519
Year 2022	59.239	60.591
Year 2023	59.239	60.591
Year 2024	59.239	60.591
Later payments	342.483	330.176
Total	640.141	881.041

Interest bearing debt changed as follows in the year:

	2019	2018
Interest bearing loans 1 January	881.041	1.749.351
Unpaid purchase price reclassified	0	(165.113)
New borrowings	0	185.785
Repayments	(245.213)	(1.043.870)
Foreign exchange difference	4.313	154.888
Interest bearing loans 31 December	640.141	881.041

The Company's loan agreements contain covenants on financial conditions and the Company meets all of its covenants at year end 2019.

The Company's borrowings from financial institutions are insured with pledges in trade receivables, inventories and ownership in specific subsidiaries, see note 16.

21. Leases

The Group leases office premises and warehouses. These leases are generally for 10-20 years with extension options at the end of the lease term. Most of the leases are connected to the consumer price index. The Group subleases part of its office premises at Borgartún 37 to Tempo ehf. Leases were previously classified as operating leases according to IAS 17.

Right-of-use assets are specified as follows:

	Real estate
Right-of-use assets 1.1	1.099.720
Depreciation	(250.288)
Additions to right-of-use assets	466.302
Effect of remeasurement of leases and change in foreign exchange differences	31.796
Right-of-use assets 31.12	1.347.530

Effects of leases in statement of comprehensive income is divided as follows:

	2019
2019 - Leases according to IFRS 16	
Interest payments of lease liabilities	71.034
Interest income from receivables	8.418
Depreciation of right-of-use assets	250.288

Consolidated Financial Statements of Origo hf. 2019 28 Amounts are in ISK thousand

21. Leases, contd.

2018 - Operating leases according to IAS 17

Rental costs	308.459
Rental income	33.256

Effect of leases in cash flow are are specified as follows:

Payments according to leases	350.315
Receivables according to leases	34.037

Extension options

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group does not expect to exercise extention options of leases since there is uncertainty regarding whether the options will be exercised.

Lease liabilities

Lease liabilities are specified as follows:

Payments 2020	334.529
Payments 2021	321.156
Payments 2022	278.130
Payments 2023	278.010
Payments 2024	276.551
Subsequent payments	474.040
Total undiscounted lease payments	1.962.416
Accrued intrest payments	5.199
Net investment in leases	3.595.502

Lease assets

The Group leases out a part of Borgartúni 37 to Tempo ehf. and interest income due to lease assets amounted to a total of ISK 8 million. In the following table, the aging of lease receivables is specified for payments due after the end of the accounting period. The lease receivables are undiscounted.

Payments 2020	34.429
Payments 2021	34.429
Payments 2022	34.429
Payments 2023	34.429
Payments 2024	34.429
Payments 2025	34.429
Total undiscounted lease receivables	206.574
Unrealised interest income	585
Net investment in leases	207.159

The Group does not expect to exercise extention options of leases since there is uncertainty regarding whether the options will be exercised.

Consolidated Financial Statements of Origo hf. 2019 29 Amounts are in ISK thousand

22. Income tax

Income tax in the statement of comprehensive income is specified as follows:

	2019	2018
Income tax recognised in the statement of comprehensive income	(74.493)	(93.610)

Effective income tax is specified as follows:

		2019		2018
Profit before income tax		752.758		5.534.080
Income tax according to the current tax ratio	20,0%	(150.552)	20,0%	(1.106.816)
Effects from the sale of Tempo ehf.	0,0%	0	(18,4%)	1.019.589
Effect of translation difference on receivables from a subsidiary	0,5%	(3.441)	0,2%	(10.434)
Realised translation difference	(9,0%)	67.994	0,0%	0
Non-taxable income	(1,8%)	13.756	(0,3%)	15.665
Effect of tax ratios of foreign tax regions	0,4%	(2.760)	0,0%	(2.608)
Other	(0,1%)	510	0,2%	(9.006)
Effective income tax	9,9%	(74.493)	1,7%	(93.610)

Income tax asset is specified as follows:

	2019	2018
Income tax asset at 31 December	43.426	130.881
Income tax effect of adoption of IFRS 15	35.296	64.141
Income tax asset at 1 January	78.722	195.022
Income tax for the year	(74.493)	(93.610)
Effects from the sale of Tempo ehf.	0	(99.144)
Unpaid income tax	14.123	8.885
Foreign exchange difference and other changes	(301)	32.273
Income tax asset at 31 December	18.051	43.426

Income tax asset is specified as follows at year-end:

	Assets	Liabilities	Net
2019			
Property and equipment	14.561	(269.506)	(254.945)
Intangible assets	0	(30.796)	(30.796)
Trade receivables and other receivables	5.538	(36.382)	(30.844)
Deferred taxable foreign exchange difference	0	(5.873)	(5.873)
Carry forward taxable loss	340.509	0	340.509
Income tax asset (liability)	360.608	(342.557)	18.051
Offsetting	(342.557)	342.557	0
Income tax asset at 31 December	18.051	0	18.051
2018			
Property and equipment	19.544	0	19.544
Intangible assets	0	(9.688)	(9.688)
Trade receivables and other receivables	8.280	0	8.280
Deferred taxable foreign exchange difference	0	(17.633)	(17.633)
Carry forward taxable loss	42.923	0	42.923
Income tax asset (liability)	70.747	(27.321)	43.426
Offsetting	(27.321)	27.321	0
Income tax asset at 31 December	43.426	0	43.426

Consolidated Financial Statements of Origo hf. 2019 30 Amounts are in ISK thousand

22. Income tax, contd.:

Carry forward taxable loss utilisable against future profit over the next years is specified as follows:

	2019	2018
Taxable loss due to 2014, utilisable until 2024	0	203.919
Taxable loss due to 2015, utilisable until 2025	0	5.565
Taxable loss due to 2016, utilisable until 2026	0	5.132
Total carry forward taxable loss	0	214.616

Origo hf. and Tempo ehf. were under joint taxation until the sale of 55% of equity shares.

23. Trade payables and other payables

Trade payables and other payables are specified as follows:

	2019	2018
Trade payables	1.232.887	1.859.390
Other payables	1.491.676	1.413.872
Total trade payables and other payables	2.724.563	3.273.262

Risk management

24. Overview

The Group is exposed to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information on each of the above risks, objectives, policies and processes of the Group for measuring and managing risk.

The Group's risk management policies are established to identify and analyse the risk faced by the Group, to set appropriate risk limits and to monitor it. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

25. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash equivalents.

Trade receivables and other receivables

The Group's exposure to credit risk is influenced mainly by the financial position and operations of each customer. The industry and location in which customers operate have less of an influence on credit risk. Approximately 21% (2018: 16%) of the Group's revenue is attributable to sales and services to its five biggest customers.

The Group has established a credit policy under which new customers are analysed individually for creditworthiness before they are offered credit. Credit history of new customers is reviewed and purchase limits are established.

Consolidated Financial Statements of Origo hf. 2019 | 31 | Amounts are in ISK thousand

25. Credit risk, contd.:

Most of the Group's customers have been transacting with the Group for many years, and losses have been immaterial in proportion to turnover. In monitoring customer credit risk, aging profile and financial position of the individual customer is studied. Trade and other receivables relate mainly to the Group's wholesale customers and resellers. Customers that are graded as high risk or have used their credit limits either have to pay down their debts or get permission from the Group's finance department to conduct further withdrawals.

Goods are sometimes sold subject to retention of title clauses, so that in the event of non-payment the Group can reclaim the item. The Group does in most cases not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component relating to individual customers and a collective loss component taking into account the age of claims which have not been connected to individual customers. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. Trade and other receivables are written-off when credit events such as bankruptcy occurs

Guarantees

The Group's policy is to provide financial guarantees only to its subsidiaries. At year-end 2018 and 2019 the parent company had provided no guarantees to its subsidiaries.

Exposure to credit risk

The Group's maximum exposure to credit risk of financial assets is their carrying amount which at year-end was as follows:

		Carrying amount	
	Notes	**2019**	**2018**
Securities and long-term receivables		161.222	13.023
Trade receivables and other receivables	13	2.017.897	1.802.366
Cash and cash equivalents	14	825.847	3.175.454
		3.004.966	4.990.843

The Group's maximum exposure to credit risk for trade receivables is specified as follows by geographic regions:

Iceland	1.588.025	1.588.025
Other countries	91.929	91.929
	1.679.954	1.679.954

At year-end the Group's five most significant customers account for ISK 381 million of trade receivables (2018: ISK 362 million).

Impairment losses

The aging of trade receivables at year-end was as follows:

	Gross		Impairment	
	2019	**2018**	**2019**	**2018**
Not past due	1.566.826	1.491.642	7.834	7.458
Past due 0 - 30 days	150.874	189.226	7.610	13.960
Past due 31 - 120 days	79.193	22.034	6.415	6.491
Past due more than 120 days	9.652	18.452	6.541	13.491
	1.806.545	1.721.354	28.400	41.400

Consolidated Financial Statements of Origo hf. 2019 32 Amounts are in ISK thousand

25. Credit risk, contd.:

Changes in allowance for impairment in respect of trade receivables during the year were as follows:

	2019	2018
Balance at 1 January	41.400	21.400
Changes during the year	(13.000)	20.000
Balance at 31 December	28.400	41.400

Management does not assess risk of loss on other short term receivables.

26. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due and not risking damage to the Group's reputation.

The Group maintains lines of credit with two Icelandic commercial banks and one foreign commercial bank. Unused credit lines amount to up to ISK 400 million at year-end 2019 (2018: ISK 400 million).

Contractual instalments of liabilities, including expected interest payments, are specified as follows:

2019

	Carrying amount	Contractual cash flows	Less than 1 year	2-5 years	3-5 years
Non-derivative financial liabilities:					
Current loans	640.141	843.832	46.727	389.686	407.419
Lease liabilities	1.702.550	1.180.368	52.885	312.441	236.441
Trade payables and other payables	2.742.774	2.742.774	2.742.774		
	5.085.465	4.766.974	2.842.386	702.127	643.860

2018

	Carrying amount	Contractual cash flows	Less than 1 year	2-5 years	3-5 years
Non-derivative financial liabilities:					
Current loans	881.041	1.134.468	45.030	481.703	607.735
Trade payables and other payables	3.273.262	3.273.262	3.273.262		
	4.154.303	4.407.730	3.318.292	481.703	607.735

Consolidated Financial Statements of Origo hf. 2019 33 Amounts are in ISK thousand

27. Market risk

Market risk is the risk that changes in market prices of foreign currencies and interests will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Icelandic krona (ISK) and the Swedish krona (SEK). The currencies which mainly create currency risk are euro (EUR), USD, Danish krona (DKK) and SEK.

The Group is exposed to currency risk due to transactions within the Group. The currency risk arises when companies within the Group trade with each other and the functional currency is not the same. The parent company's functional currency is the Icelandic Krona (ISK) and the consolidated financial statements are presented in ISK. The parent company has claims on subsidiaries with a functional currency other than its own and is therefore exposed to currency risk displayed in the table above.

The Group's exposure to foreign currency risk was as follows based on nominal amounts:

2019	**EUR**	**DKK**	**SEK**	**USD**
Trade and other receivables	57.705	26.381	7	18
Cash and cash equivalents	5.137	1.180	0	2.215
Loans and borrowings	(139.497)	(36.017)	(221.974)	(1.462)
Trade and other payables	(211.412)	(371.143)	(16.477)	(50.678)
Gross balance sheet exposure	(288.067)	(379.599)	(238.444)	(49.907)
Balances within the Group	0	(17.207)	174.302	0
The Group's currency risk exposure	(288.067)	(396.806)	(64.142)	(49.907)

2018	**EUR**	**DKK**	**SEK**	**USD**
Trade receivables	30.644	32.726	709	0
Cash and cash equivalents	4.181	163	0	179.293
Loans and borrowings	(149.552)	(224.409)	(241.917)	(1.535)
Trade and other payables	(191.585)	(643.346)	(11.468)	(270.823)
Gross balance sheet exposure	(306.312)	(834.866)	(252.676)	(93.065)
Balances within the Group	0	1.932	267.055	0
The Group's currency risk exposure	(306.312)	(832.934)	14.379	(93.065)

The following significant exchange rates were applied during the year:

	Average rate		**Reporting date spot rate**	
	2019	**2018**	**2019**	**2018**
EUR	136,92	127,73	136,21	132,86
DKK	18,44	17,03	18,24	17,89
SEK	12,98	12,44	13,06	13,02
USD	122,73	106,24	121,64	123,60

Consolidated Financial Statements of Origo hf. 2019 34 Amounts are in ISK thousand

27. Market risk, contd.:

Sensitivity analysis

A 10% strengthening of ISK against the following currencies at 31 December would have increased (decreased) the Group's results before income tax by the amounts shown below. This analysis assumes that all other variables remain constant. This analysis was performed on the same basis as for the year 2018.

	2019	2018
EUR	28.807	30.631
DKK	39.681	83.293
SEK	6.414	(1.438)
USD	4.991	9.307

A 10% weakening of ISK against the above currencies would have had equal but opposite effect on the basis that all other variables remain constant.

Currency risk due to investment in subsidiaries and associates

In addition to currency risk presented in finance income and finance expenses the Group is also exposed to currency risk from its investments in subsidiaries and associates where the functional currency is not the same as the parent company's. The currency risk is presented in other comprehensive income as foreign currency translation differences for subsidiaries and associates. This stems primarily from investment in Tempo ehf. Translation difference in other comprehensive income is positive by ISK 118 million for the year 2019 (2018: negative by ISK 20 million.) Investment in subsidiaries and associates is specified as follows:

	2019	2018
Equity in Tempo ehf. - Investment in USD	2.684.027	2.697.564
Equity in Applicon in Sweden - Investment in SEK	201.498	174.967

Sensitivity analysis

A 10% weakening of ISK against the following currencies at 31 December would have increased (decreased) the Group's foreign translation difference before income tax by the amounts shown below. This analysis assumes that all other variables remain constant. This analysis was performed on the same basis as for the year 2018.

	2019	2018
USD	268.403	269.756
SEK	20.150	17.497

A 10% strengthening of ISK against the above currencies would have had equal but opposite effect on the basis that all other variables remain constant.

Interest rate risk

All of the Group's borrowings are on floating interests and the Group does not hedge specifically against interest rate risk. The Group's interest rate risk only pertains to cash flow risk.

Consolidated Financial Statements of Origo hf. 2019 35 Amounts are in ISK thousand

27. Market risk, contd.:

At year-end the interest rate profile of the Group's interest bearing financial instruments is specified as follows:

	Carrying amount 2019	Carrying amount 2018
Financial assets on floating interest	825.847	3.175.454
Financial liabilities on floating interest	(640.141)	(881.041)
	185.706	2.294.413

A change of 100 basis points in interest rates at the reporting date would have increased results before income tax by ISK 2 million (2018: ISK 23 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis as for the year 2018. The Group does not account for any fixed rate financial assets and liabilities.

Other market price risk

Other market price risk is limited as investments in bonds and shares is an insignificant part of the Group's operations.

Fair values

The following table shows a comparison of fair values and carrying amounts of financial assets and liabilities. No information is published regarding fair value if it is equal to carrying amount.

	2019 Carrying amount	2019 Fair value	2018 Carrying amount	2018 Fair value
Loans and borrowings	(640.141)	(650.319)	(881.041)	(892.618)

No assets and liabilities are recognised at fair value at year-end 2019 and 2018. The basis for determining fair value is disclosed in note 3.

Determination of fair values

The interest rate used to discount estimated cash flows, where applicable, are based on interbank market at the reporting date plus a 1.6 - 3.6% margin (2018: 1.6 - 3.8%). Fair value of financial liabilities falls under level 3 of the fair value hierarchy.

28. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group’s, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate governance. Operational risks arise from all of the Group’s operations.

The Group’s objective is to manage operational risk in an efficient manner in order to avoid financial losses and to protect the Group’s reputation, and at the same time to avoid control procedures that restrict employees' initiative and creativity.

To reduce operational risk there are among other things requirements for appropriate segregation of duties, requirements for the reconciliation and monitoring of transactions, compliance with legal requirements, requirements for the periodic assessment of risks faced, employee training and professional development, organisation of work procedures and insurances where this is applicable.

Consolidated Financial Statements of Origo hf. 2019 36 Amounts are in ISK thousand

29. Related parties

Definition of related parties

Related parties are defined as shareholders with significant influence on the Group's operation, Board members and management and their close family members, and companies controlled by them.

Salaries and benefits to the Board of Directors and management for their work for the Group and shares in the Company are specified as follows:

For the year 2019:

	Salaries and benefits	Contribution to pension funds	Share
Ívar Kristjánsson, Chairman of the Board	7.880	1.064	2.935
Hildur Dungal, Vice Chairman of the Board	3.406	392	0
Guðmundur Jóh. Jónsson, Board Member	3.468	468	657
Svafa Grönfeldt, Board Member	2.824	325	0
Hjalti Þórarinsson, Board Member	3.220	370	0
Finnur Oddsson, CEO	61.236	12.642	1.786
Key managers (7)*	182.896	23.323	1.104

* These are six key managers at Origo hf. and managing director of Applicon AB, in total seven key members of management.

For the year 2018:

	Salaries and benefits	Contribution to pension funds	Share
Ívar Kristjánsson, Chairman of the Board	8.100	1.035	2.935
Hildur Dungal, Vice Chairman of the Board	3.245	348	0
Loftur Bjarni Gíslason, Board Member	3.310	357	42
Guðmundur Jóh. Jónsson, Board Member	3.430	437	657
Emelía Þórðardóttir, Board Member	3.080	332	0
Hjalti Þórarinsson, Vice Board Member	4.690	511	0
Finnur Oddsson, CEO	48.051	9.475	1.501
Key managers (8)*	193.000	22.993	1.144

* These are seven key managers at Origo hf. and managing directors of Applicon AB, in total eight key members of management.

Included in the above shares are shares of spouses and financially dependent children, in addition to shares of companies controlled by board members and management.

Other transactions with related parties are an insignificant part of the Group's operations. Pricing in such transactions is comparable to other transactions of the Group.

30. Group entities

Origo hf.'s subsidiaries at year end are:

	Country	Shareholding 2019	2018
Application Consulting Sweden Holding AB	Sweden	100%	100%
Application Consulting Sweden AB	Sweden	100%	100%
Sendill is Unimaze ehf.	Iceland	60%	60%
Sense ehf.	Iceland	100%	100%

Consolidated Financial Statements of Origo hf. 2019 37 Amounts are in ISK thousand

31. Fees to auditors

Fees to auditors of the Group in the year 2019 amounted to ISK 25 million (2018: ISK 34 million), whereof ISK 15 million (2018: ISK 15 million) was for the audit of financial statements. Fees to KPMG in Iceland amounted to ISK 24 million (2018: ISK 33 million) and ISK 1 million (2018: ISK 1 million) to KPMG in Sweden.

32. Financial ratios

Financial ratios for the Group:

Comprehensive income:	**2019**	**2018**
Inventory turnover - Cost of goods / Inventory at year-end	4,1	4,8
Receivables turnover - Receivables at period end / Sales of goods and services	24	22
Salary and salary related expenses / Sales of goods and services	43,1%	41,1%
Other operating expenses / Sales of goods and services	23,1%	23,4%
Profit for the year after tax / Sales of goods and services	3,1%	34,5%

Financial position:	**31.12.2019**	**31.12.2018**
Current ratio - current assets / current liabilities	1,34	1,95
Equity ratio - equity / capital	57,0%	66,1%

34. Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these financial statements, and to all companies within the Group, except for what is described in note 5, changes in accounting

In order to increase the information value of the financial statements, the notes are published on the basis of how appropriate and significant they are for the reader. This entails that information which is considered neither significant nor appropriate for the user of the financial statements are not published in the notes.

a. *Basis of consolidation*

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control is based on whether an investor has power over the investment, bears a risk or has the rights to variable returns from its involvement in the investment and has the ability to affect its returns of the investment. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Accounting policies of subsidiaries have been changed when deemed necessary in order to adjust them to the Group's policies.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements

Consolidated Financial Statements of Origo hf. 2019 38 Amounts are in ISK thousand

34. Significant accounting policies, contd.

(iii) Merger of companies

The purchase method is applied at merger when control transfers to the Group. The transaction at merger is measured at fair value as well as the separable assets and liabilities which are taken over.

Purchase method is applied at merger when control is transferred to the Group. The purchase price is in general measured at fair value as well as the separable assets and liabilities which are taken over.

When the company is the acquiring party at merger goodwill is created and other intangible assets. The amounts allocated to acquired assets and liabilities are based on presumptions and estimation of fair value of these assets and liabilities. In performing the evaluation management consults við independent and accepted appraisers as applicable. Changes in presumptions and evaluation could lead to changes in value assigned to specific assets and liabilities and their estimated useful lives which can have an effect on amounts or timing of recognition in the Group's statement of comprehensive income, as well as depreciation of intangible assets.

Conditional supplementary payments are recognised at fair value at the acquisition date. If such supplementary payment is categories as equity it is not revalued and is settled within equity. In other instances changes in fair value of conditional supplementary payment is recognised in the Group's statement of comprehensive income.

(iii) Associates

Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs.

The financial statements include the Group’s share of the profit or loss of associates, after the accounting policies of the associate have been recognised with the company's accounting policies. The equity method is applied from the date that significant influence commences until the date that significant influence ceases.

If share in loss exceeds book value of the associate the book value is moved to zero and further loss not recognised unless the Group has accepted guarantee for the associate or financed it. If profit incurs in later periods the Group does not recognise its profit until accumulated loss has been met.

b. Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are recognised in the functional currency of individual group entities at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are recognised at the exchange rate ruling at the reporting date. Other assets and liabilities recognised in foreign currencies at fair value are translated at the exchange rate ruling at the date of determination of fair value. Exchange differences arising from transactions in foreign currencies are recognised in the statement of comprehensive income.

(ii) Foreign subsidiaries

The assets and liabilities of foreign operations, including goodwill, are translated to ISK at exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to ISK at the average exchange rate of the year. Exchange rate differences arising from the translation to ISK are recognised as a separate item in the statement of comprehensive income, less minority's interest in the difference. When a foreign operation is sold, partially or entirely, the related exchange rate difference is transferred to the statement of comprehensive income.

34. Significant accounting policies, contd.:

c. *Financial instruments*

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in shares and bonds, trade and other receivables, cash and cash equivalents, borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. When financial instruments are not recognised at fair value through profit or loss any direct transaction cost is recognised as increase in their value upon initial recognition. Subsequent to initial recognition non-derivative financial instruments are recognised as follows.

Loans and receivables at amortised cost
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially measured at fair value plus all direct transaction costs. Subsequent to initial recognition loans and receivables are recognised at amortised cost using the effective interest method, less impairment when appropriate. Loans and receivables comprise cash and cash equivalents, bonds, contracts, trade and other receivables.

Cash and cash equivalents
Cash and cash equivalents consist of funds and on demand bank deposits.

Other financial liabilities
Other financial liabilities are recognised at amortised cost based on effective interests.

Accounting for finance income and expense is discussed in note 34 (m).

(ii) Share capital

Share capital is classified as equity. Direct cost due to issue of share capital is accounted for as decrease in equity, after deducting tax.

Treasury shares
When share capital recognised as equity is repurchased by the Group, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. When treasury shares are sold the sale is recognised as increase in equity.

d. *Property and equipment*

(i) Recognition and measurement

Property and equipment is recognised at cost value, or revalued cost value, less accumulated depreciation and impairment. Cost value includes direct cost incurred upon the purchase.

When property and equipment consists of parts which have different useful lives, the parts are separated and depreciated based on the useful life of each part.

The gain on sale of property and equipment, which is the difference between their sale proceeds and carrying amount, is recognised in the statement of comprehensive income among other income and the loss on sale among other operating expenses.

(ii) Subsequent costs

Costs of replacing single components of property and equipment is capitalised when it is considered likely that the benefits associated with the asset will flow to the Group and the costs can be measured reliably. The carrying amount of the replaced component is expensed. All other costs are expensed in the statement of comprehensive income as they incur.

34. Significant accounting policies, contd.:

d. *Property and equipment, contd.*

(iii) Depreciation and amortisation

Depreciation is calculated based on the depreciable amount, which is the cost less residual value. Depreciation is calculated on a straight line basis over the estimated useful lives of each component of property and equipment. Leased assets are depreciated over the shorter of lease term or useful life of the asset, unless it is evident that the Group will become the owner of the leased asset at the end of the lease term. Estimated useful lives are specified as follows:

Real estates	75 years
Tools, equipment and interiors	4 - 7 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and changed if applicable.

e. *Intangible assets*

(i) Goodwill

Goodwill arises upon the acquisition of subsidiaries.

Goodwill is the difference between the cost upon take-over and the fair value of overtaken assets, liabilities and uncertain liabilities. If negative goodwill arises it is immediately recognised in the statement of comprehensive income.

(ii) Subsequent measurement

Goodwill is measured at cost less accumulated impairment loss.

(iii) Software

Software is recognised at cost less accumulated linear amortisation and impairment. Software is amortised over 2 to 10 years.

Amortisation methods and useful lives are reviewed at each reporting date and changed if appropriate.

f. *Lease agreements prior to transition to IFRS 15*

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not capitalised. The Group's leases were all recognised as operating leases.

g. *Inventories*

Inventories are measured at the lower of the cost and net realisable value. The cost of inventories is based on the first-in first-out rule, and includes expenditure incurred in acquiring the inventories and in bringing them to the location and condition in which they are at the reporting date. Net realisable value is the estimated selling price in an ordinary course of business less the estimated costs necessary to make the sale.

34. Significant accounting policies, contd.:

h. *Impairment*

Financial assets

A financial asset, not recognised at fair value, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Impairment loss on financial assets measured at amortised cost is the difference between, on the one hand, their carrying amount, and on the other hand, the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment loss on financial assets available for sale is determined on the basis of their fair value at each time. Individual significant financial assets are tested specifically for impairment. Other financial assets are classified together based on credit risk characteristics and each group is tested specifically for impairment.

An impairment loss is expensed in the statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. Impairment loss on investments held to maturity is reversed in the statement of comprehensive income.

Other assets

Carrying amount of other assets of the Group, except for inventories and tax asset, is reviewed at each reporting date to determine whether there are indications of impairment. If there is any such indication the recoverable amount of the asset is estimated. Goodwill is tested for impairment at least once a year.

The recoverable amount of an asset or a cash generating unit is the higher of their net fair value or value in use. Value in use is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is expensed when the carrying amount of an asset or a cash generating unit is higher than its recoverable amount. A cash generating unit is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or asset groups. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of the goodwill and then to reduce the carrying amounts of the other assets in the cash generating unit on a pro rata basis. An impairment loss is expensed in the statement of comprehensive income.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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 if no impairment loss had been recognised.

i. *Employees' benefits*

(i) Contribution to defined contribution pension plans

The Group pays fixed contributions to independent defined contribution pension funds due to its employees. The Group has no responsibility for the funds' obligations. Contributions are expensed in the statement of comprehensive income among salaries and salary related expenses as they are incurred.

34. Significant accounting policies, contd.:

j. *Provisions*

A provision is recognised when the Group has a legal or constructive obligation due to past events and it is likely that a cost, which can be measured reliably, will be required to be paid by the Group. Provisions are measured by discounting the estimated future cash flows using pre-tax discount rates that reflect current market assessments of the time value of money and the risks specific to individual provisions.

(i) Guarantees

An obligation due to a guarantee is recognised when goods or services are sold. The obligation is measured based on previous experience with guarantees by weighing the possible outcome and probability related thereto.

k. *Revenue*

(i) Sold goods and software

Revenue from the sale of goods and software in the course of ordinary business is measured at the fair value of the payment received or receivable, net of trade discounts and refunds. Revenue is recognised in the statement of comprehensive income when a significant portion of the risks and rewards of ownership are transferred to the buyer, it is probable that the consideration will be collected and the cost of sale and possible return of goods can be estimated reliably. Credit is in general provided for 30 days except for sale in cash.

(ii) Sold services

Revenue from the sale of services is recognised in the statement of comprehensive income in proportion to the status of work in progress at the reporting date. The status of work in progress is measured on the basis of work performed. Credit is in general provided for 30 days except for sale in cash.

(iii) Operating lease income

Lease income is recognised in the statement of comprehensive income on a straight line basis over the lease term under the item other operating income.

l. *Lease payments*

(i) Operating lease expense

Prior to transition to IFRS 15 payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(ii) Finance lease expense

Minimum lease payments made under finance leases are apportioned between finance expense and reduction of the outstanding liability. Interest expenses are distributed over the lease term based on effective interests.

m. *Finance income and finance expenses*

Finance income comprises interest income on investments, dividend income and foreign exchange gain on foreign currencies. Interest income is recognised in the statement of comprehensive income as it accrues based on effective interests. Dividend income is recognised in the statement of comprehensive income when distribution of dividend has been approved.

Finance expenses comprise interest expense on borrowings, unwinding of discounting, fair value losses on financial assets at fair value through profit or loss and exchange rate loss on foreign currencies. Foreign currency gains and losses are reported on a net basis.

34. Significant accounting policies, contd.:

n. *Income tax*

Income tax expense comprises current and deferred income tax. Income tax is recognised in statement of comprehensive income except to the extent that it relates to operating items recognised directly in equity or in statement of comprehensive income, in which case the income tax is recognised in those items.

Current income tax is the expected tax payable next year on the taxable income for the current year, using tax rates effective at the reporting date, in addition to adjustments made to current tax of previous years.

Deferred income tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognised for differences relating to investments in subsidiaries. Deferred income tax liability is not recognised for goodwill which is non-deductible for tax purposes. The amount of deferred tax is based on the estimated realisation or settlement of the carrying amounts of assets and liabilities using the tax rate in effect at the reporting date.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities under joint taxation if they intend to settle tax payments jointly.

A deferred income tax asset is only recognised to the extent that it is probable that future taxable profits will be available against the asset. Deferred income tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable it will be realised.

o. *Earnings per share*

In the financial statements, the Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares due to possible dilution in respect of shares which the Group would have to issue in relation to employees' share purchase agreements.

p. *Segment reporting*

A segment is a distinguishable component of the Group which deals with transactions and is able to generate income and incur expenses, including income and expenses on transactions with other components of the Group. The return of all Group segments is reviewed on a regular basis by the CEO in order to decide how to allocate its assets to the segments and to evaluate their performance.

Segment operating results, assets and liabilities consist of items that can be directly linked to each segment, in addition to the items that can be reasonably divided into segments.

Segment investments are the total cost of purchases of operating assets and intangible assets other than goodwill.

Pricing of goods and services between segments is on an arm´s length basis.

q. *Leases*

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information for the year 2018 has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Accounting policy as of 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into on or after 1 January 2019.

34. Significant accounting policies, contd.:

q. *Leases, contd.*

(i) The Group as lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:
– fixed payments, including in-substance fixed payments;
– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
– amounts expected to be payable under a residual value guarantee; and
– the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

34. Significant accounting policies, contd.:

q. *Leases, contd.*

(ii) The Group as lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease (see Note 45(R)(i)). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of ‘other revenue’.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

35. New financial reporting standards and interpretations not yet adopted

A few new international reporting standards apply to accounting periods beginning on or after 1 January 2019 and early adoption is permitted. The Group has however not implemented new or changed reporting standards prior to adoption when these financial statements were prepared.

It is not expected that the following changes to standards and interpretations will have significant effect on the Group's financial statements.

– Changes of references to conceptual framework of international reporting standards.
– Definition of a company (change to IFRS 3).
– Definition of materiality (changes to IAS 1 and IAS 8).
– IFRS 17 Insurance Contracts.

Quarterly Statements - Unaudited

Quarterly Statements

The Group's quarterly statements are not audited. Summary of the Group´s results by quarters is specified as follows:

2019	Q1	Q2	Q3	Q4	Total
Sales of goods and services	3.552.869	3.493.083	3.462.783	4.336.340	14.845.075
Cost of goods and cost of sold services	(2.631.272)	(2.641.647)	(2.715.660)	(3.011.295)	(10.999.874)
Gross profit	921.597	851.436	747.123	1.325.045	3.845.201
Operating expenses	(825.291)	(778.728)	(647.728)	(1.174.021)	(3.425.768)
Operating profit	96.306	72.708	99.395	151.024	419.433
Finance income	14.629	33.180	13.744	414.471	476.024
Finance expenses	(57.551)	(47.919)	(10.450)	(35.558)	(151.478)
Net finance revenues (expense)	(42.922)	(14.739)	3.294	378.913	324.546
Share of profit (loss) of associates	21.297	46.349	(1.959)	(56.908)	8.779
Profit before income tax	74.681	104.318	100.730	473.029	752.758
Income tax	(10.855)	(5.074)	(26.891)	(31.673)	(74.493)
Profit for the period	63.826	99.244	73.839	441.356	678.265
Other comprehensive income recognised in equity:					
Translation difference for foreign operation	149.422	38.823	(59.157)	(11.204)	117.884
Realized foreign translation difference	0	0	0	(339.969)	(339.969)
Income for the period recognised in equity	149.422	38.823	(59.157)	(351.173)	(222.085)
Total profit of the period	213.248	138.067	14.682	90.183	456.180
EBITDA	237.250	213.336	253.625	302.050	1.006.261

Consolidated Financial Statements of Origo hf. 2019 47 Amounts are in ISK thousand

Quarterly Statements, contd.:

2018	Q1	Q2	Q3	Q4	Total
Sales of goods and services	3.781.316	3.731.061	3.743.512	4.460.797	15.716.686
Cost of goods and cost of sold services	(2.873.546)	(2.721.500)	(2.672.474)	(3.275.801)	(11.543.321)
Gross profit	907.770	1.009.561	1.071.038	1.184.996	4.173.365
Operating expenses	(970.959)	(947.797)	(868.264)	(895.196)	(3.682.216)
Operating profit	(63.189)	61.764	202.774	289.800	491.149
Effects of the sale of Tempo ehf.	0	0	0	5.097.947	5.097.947
Finance income	56.459	(7.924)	4.250	26.760	79.545
Finance expenses	(28.207)	(26.578)	(27.719)	(30.535)	(113.039)
Net finance revenues (expense)	28.252	(34.502)	(23.469)	5.094.172	5.064.453
Share of profit (loss) of associates	0	0	0	(21.522)	(21.522)
(Loss) profit before income tax	(34.937)	27.262	179.305	5.362.450	5.534.080
Income tax	6.518	(5.976)	(36.280)	(57.872)	(93.610)
(Loss) profit for the period	(28.419)	21.286	143.025	5.304.578	5.440.470
Other comprehensive income recognised in equity:					
Translation difference for foreign subsidiaries	2.198	(5.889)	3.000	6.947	6.256
Recognised foreign translation difference from the sale of Tempo ehf.	0	0	0	(26.679)	(26.679)
Total other comprehensive income for the period recognised in equity	2.198	(5.889)	3.000	(19.732)	(20.423)
Total (loss) profit of the period	(26.221)	15.397	146.025	5.284.846	5.420.047
EBITDA	101.681	234.772	368.657	423.302	1.128.412

Consolidated Financial Statements of Origo hf. 2019 48 Amounts are in ISK thousand

Statement of Corporate Governance

Board of Directors and Corporate governance

Board of Directors

The Board of Directors of Origo hf. consists of five Board members and two vice board members appointed for a one year term at a shareholders meeting. At a shareholders meeting on 2 May 2019 Guðmundur Jóhann Jónsson, Hildur Dungal, Hjalti Þórarinsson, Ívar Kristjánsson and Svafa Grönfeldt were chosen without election to the Board. Elísabet Grétarsdóttir and Gunnar Zoega were chosen without election to be vice board members. Ívar Kristjánsson is Chariman of the Board and Hildur Dungal Vice Chairman. Gunnar Zoega left as vice board member in October 2019.

The Company's Board of Directors and vice board members consist of three men and three women and therefore complies with provisions in law on gender ratio which entered into effect on 1 September 2013. All five board members are independent of the Company. Board members' background and education is of various genre, among others economics, engineering and law, and one board member has a law degree. Furthermore, board members have extensive professional experience.

Corporate governance

The Board of Directors of Origo hf. emphasizes maintaining good management practices and aims to comply with the Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers in June 2015. The Board of Directors has laid down comprehensive rules wherein the competence of the Board is defined and its scope of work vis-à-vis the CEO. These rules include among other things rules regarding order at meetings, minutes, comprehensive rules on the competence of Directors to participate in discussions and decisions of issues presented to the Board and rules on confidentiality. They also contain rules on information disclosure by the CEO to the Board and the Board's power of decision but the signature of the majority of the Board is binding upon the Company.

The Company's current rules were approved at a Board meeting on 22 March 2018 and are accessible on the Company's website, www.origo.is.

The Board of Directors has appointed an Audit Committee and the committee's rules are accessible on the Company's website. The Audit Committee currently consists of the Chairman of the Board, one Board member and an external state authorised public accountant. Its main role and responsibility is to monitor work procedures in the preparation of the financial statements, procedures and efficiency of the Company's internal control, internal audit and, where relevant, risk management and other control factors. Furthermore, the committee presents motions to the Board regarding election of the Company's auditor and assesses the auditor's independence and monitors its work. The Board has also appointed Terms of Employment Committee and Technical Committee which main roles are to give advise to the Board and management on employment terms and issues relating to salary development and the technical environment of Origo. Compliance officer appointed by the Board is responsible for monitoring that rules on insider information and trading are adhered to. The Board has not appointed an appointment committee, but in revising the Board's corporate governance and the framework of operations, it is now the opinion of the Board that such a committee should be appointed and a proposal regarding this will be submitted to the annual general meeting.

In the year 2019, 13 Board meetings were held and 5 meetings in the Audit Committee in addition to meetings of the Terms of Employment Committee. Meetings have been attended by the majority of the Board of Directors and the majority of the committee members. The Audit Committee meets with the Company's auditors on a regular basis and participates in Board meetings when financial statements are being discussed.

To ensure that the Group's financial statements are in accordance with International Financial Reporting Standards the Company places emphasis on carefully defined responsibilities, appropriate separation of tasks and regular reporting and transparency in the operations. Monthly reporting and review for individual divisions is an important factor in the control on return and other key operating factors. Monthly statements are prepared and submitted to the Company's Board of Directors. The Company has established work procedures to ensure control in income recognition, operating expenses and other items affecting the Company's operation. Risk management is reviewed on a regular basis in order to reflect changes in market conditions and the Company's operations. With personnel training and work procedures the Group aims at maintaining disciplined control where all employees are aware of their role and responsibilities. Operating risk is managed by monitoring transactions and compliance with law. The Board has established equity management policy to ensure strong equity position and support stable future operating development.

Board of Directors of Origo hf.

According to the Company's Articles of Association the Board of Directors of Origo hf. is the highest authority in the Company's affairs between shareholders meetings. The Board decides on the policy of the Origo Group and follows up on the Group's main operations. The Board is provided with operating and investment plans for approval and the Board follows up on the progress within the year. The Board decides on organisation and follows up on that the Company's operations are in accordance with its resolutions. The Board shall ensure that sufficient controls are in place regarding the Company's finances and that proper order is in place regarding bookkeeping and accounting.

There are five members of the Board of Directors of Origo hf. and two vice board member and they are appointed for a one year term at the Annual General Meeting. In accordance with the Company's Articles of Association candidacy to take seat on the Board shall be notified to the Board at least five days prior to shareholders' meetings. Only individuals who notify their candidacy in this manner can be elected at the Annual General Meeting. The Chairman calls Board meetings and chairs them. Meetings shall be held whenever the Chairmen deems necessary, but in addition he is bound to call board meetings if one board member or the CEO so demands. Board meetings are only legal if three or more board members are present.

Role of CEO

The Board of Directors of Origo hf. hires the Company's Chief Executive Officer and decides on his remuneration. CEO is responsible for daily operations of the Company in line with its Articles of Association, policies and decisions made by the Board. The CEO shall work on policy making and advancement of the Company in addition to organising and follow up on its daily operations. Furthermore, the CEO's role is to ensure that the Company's operations are in line with current legislation and rules at each time and ensure that the operations of subsidiaries are the same.

Shareholders meetings

Legal shareholders meetings wield supreme power over the affairs of the Company. Annual General Meetings shall be held before the end of June each year and shareholders meetings shall be held as decided by the Board of Directors or by request of the elected auditor or shareholders holding at minimum 1/20 of the share capital. A request for a shareholders meeting shall be submitted in writing, items for the agenda identified and then a meeting called within the legal time limit. A shareholders meeting shall be called with an advertisement in a newspaper or by other comparable means. Annual General Meeting shall be called with at minimum three weeks and maximum four weeks notice in accordance with changes to the Companies Act from 19 September 2009. The invitation to a meeting shall include matters to be discussed and documents and proposals which will be submitted to the meeting. One vote is attached to each share in the Company at shareholders meetings.

Changes to the Company's Articles of Association

The Company's Articles of Association can only be amended by a lawful shareholders meeting provided that the pending amendments in addition to the main details of the changes to be made have been notified in the call of the meeting. The Articles of Association may be amended with at least 2/3 of the votes cast as well as with the approval of shareholders controlling a minimum of 2/3 of the share capital represented in the meeting. Changes to the Origo hf.'s Articles of Association were most recently approved on 2 May 2019.

Auditors

The Company's auditors are elected at the Annual General Meeting for a period of one year at a time. KPMG ehf. was elected auditor of the Company at the 2019 Annual General Meeting and KPMG ehf. is also the auditor of the Company's subsidiaries in Iceland. KPMG in Sweden is the auditor of the Swedish subsidiary Applicon.

Exemplary organisation in corporate governance

In early 2015 Nýherji was acknowledged as an "Exemplary organisation in corporate governance" as recognised by the Center of Corporate Governance of the University of Iceland, after a thorough appraisal by Capacent.

Non-financial information

About Origo

Origo hf. is a group of information technology companies. Origo is a service company and its role is to assist customers in achieving even better success in their operations by means of information technology, expertise of employees and skilful services. Origo hf.'s shares are listed at NASDAQ OMX Iceland hf. (the Icelandic Stock Exchange) under the short name ORIGO. The number of employees at the Origo Group in Iceland and abroad is around 550. Origo's range of solutions covers most areas of information technology, such as managed services, own software development, third party software solutions, ERP solutions and IT infrastructure. Furthermore, Origo offers equipment and hardware solutions to business and consumers from many of the world's leading technology brands, such as Lenovo, IBM, Canon, Bose, Sony, NEC etc.

Further information on Origo and its subsidiaries is accessible at the Company's website, www.origo.is.

Environment

Origo has approved an environmental policy applicable to all operations of Origo and its subsidiaries, including all of the Group's employees. Employees and management of the Group are required to get familiar with the policy and enforce it, in addition to seeking means for improvement in environmental issues. All legal requirements regarding environmental issues must be adhered to in the Group's operations. With the environmental policy the Group has committed to systematically work on minimising negative environmental effect of the operations.
Origo is one of the companies in Iceland which has signed a statement on climate issues and thus committed to working on steps to reduce greenhouse gas emissions and decrease waste. Software is used to measure environmental footprints of the Company and to develop objectives regarding environmental issues for the Company. Origo encourages employees to utilise environmentally friendly transportation means, among other things by giving those who to not use a private car transportation grants and the Company has also approved a transportation policy in this regard. All waste materials at the Company's offices and warehouse are sorted in the relevant sorting bins. The Company has taken great steps in eliminating the use of disposable packaging which previously were frequently used. The Company utilises its own solution, RentaPrent, where the emphasis is on reducing the waste of paper.

Origo hf. performs now for the first time an integral environmental reporting in cooperation with Klappir Grænar Lausnir for the year 2019. The environmental reporting is performed in accordance with the Greenhouse Gas Protocol (GHG Protocol) and ESG guidance of NASDAQ and Origo has carbon offset its operations for the year 2019 in cooperation with Kolviður (Iceland Carbon Fund).

Social responsibility

Social responsibility is of great importance for Origo and the Company has been working on increasing its social responsibility in various ways. The Company's social responsibility policy has been framed in relation to young people, education and innovation, which have been the key factors in the projects which the Company has been sponsoring for a while. The Company's social responsibility policy is based on these highlights but is further developed in order to cover four main pillars, which are good corporate governance, human resources, environment and grants to beneficial projects.

Among the projects which have been sponsored are; The Youth University, The college programming competition held by the Reykjavik University, The design competition of mechanical and industrial engineering students at the University of Iceland, The programmers of the future, The First Lego design competition, The Program of the Federation of Icelandic Industries on introducing education in technology subjects at universities for college students.

Employee matters

Origo has approved various policies in order to create the optimal environment for its employees. The Company's human resources policy states that employees' knowledge with good working atmosphere and job satisfaction are the main points at the Origo Group. The company's human resource policy supports these goals by providing an working environment which encourages innovation, emphasizes learning and knowledge sharing, supporting personal growth as well as encouraging teamwork, helping the customer find smart solutions aimed at providing for their needs. Employees and their well being is pivot to the Group's prosperity and development, for the benefit of all. Various measurements are done in order to obtain information on the status of the items specified in the human resources policy. This includes regular work place analysis, performance dialogues and other enquiries.

Employee matters, contd.

The objective of the Company's equal opportunity policy is to ensure Origo achieves its goals regarding equal opportunity. It is the aim of the policy to remain current, monitor and respond to issues related to equal opportunity within the Company. Origo achieved verification at the end of 2018 of its equal pay system by BSI in Iceland which verified that it fulfils the equal pay standard ÍST 85:2012. In the year 2019 further improvements were made to Origo's equal pay system, but the system is meant to ensure that all salary decisions are systematically made and do not entail a gender gap.

The Company's policy in management and employees' remuneration has the objective to attract and retain very capable employees. The policy states that gender or other personal traits which are not related to the substance of the job or performance on the job shall not effect salaries og salary development. In order to ensure fairness and uniformity relating to salaries, management has access to centralised benchmarks on the Company's salary structure at any given time and and salary development in the external market.

Employment policy was submitted to the Annual General Meeting of Origo hf. on 7 March 2019 and approved.

Corruption, bribery and human rights

Origo's employees have approved code of ethics which relates to general business practices and business ethics. The code refers to expectations regarding methods of work in relation to customers, colleagues, owners, competitors and society. The code states that honesty and unambiguous communication is the key factor of good business ethics. Everyone doing business with Origo have the right to a just and fair treatment in the spirit of equality. Employees must notify when an incidence occurs where a breach of law is alleged. A senior executive or Company's management must be notified directly of such matters. Employees will in no way be penalised for fulfilling this obligation and confidentiality will be respected if requested. An employee cannot accept a gift, service, entertainment or personal favour which can reasonably be considered to have an effect on a transaction. Invitation to a social event should not be accepted unless the invitation is within acceptable business hospitality limits. If employees receive an offer or even threats relating to their work, they must notify their senior executive immediately.

The Board of Directors of Origo hf. emphasizes maintaining good management practices and aims to comply with the Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers. The Board of Directors has laid down comprehensive rules wherein the competence of the Board is defined and its scope of work vis-à-vis the CEO. Origo is an "Exemplary organisation in corporate governance" as recognised by the Center of Corporate Governance of the University of Iceland, after a thorough appraisal by Capacent performed in the autumn of 2014.

The Company respects human rights, everyone's right to freedom of association and collective wage agreements. To support this the Company has approved an equal opportunity policy and code of ethics, as described above. An emphasis is put on that contractors and subcontractors respect national law regarding their employees, irrespective of whether they are their employees or their own subcontractors.

Further discussion of these matters, together with statistical information, will be made available in the company's annual report, which will be published before the company's Annual General Meeting.