Annual report DCI

For executive year 2016

Chairman of the board
Jóhann Þór Jónsson, Advania

Other board members
Björn Brynjúlfsson, Borealis Data Center
Isaac Kato, Verne global

An eventful year behind us – a promising year ahead

This past year has been eventful for DCI and its members who have managed to conclude many issues and have a good headway on other issues as well.

The groups within the creative industries sector of SI, which DCI is a part of, enjoyed great success last year when the innovation bill was passed in parliament. The bill is meant to support innovation and development within the innovative sector in Iceland. As a special milestone for DCI the passing of the bill on permanent establishments, taking place on the final day of our previous government´s in office. The latter being an issue that both DCI and its predecessors had worked for years to get through parliament. Significant effort was put into promoting the importance of the data center industry this past year, addressing the message especially towards the government and we feel that much has been accomplished in that regard.

Althingi called for a report to be made on the importance of improved connectivity and the economic impact of data centers. DCI and SI used the opportunity to submit an extensive report on the status of the Icelandic data center industry that included a comparison with our main competitors as well as suggestions for improvements. Work has already been initated to have a more comprehensive study made by a third party on the competitiveness of the Icelandic data center industry which we hope to be able to produce later this year. This study should further underline the key elements DCI is promoting and provide for clear action points towards those that support at more competitive environment for the data center industry in Iceland.

The future of the Icelandic data center industry is bright but it will to a great extent depend on the right prioritisation, whether it be funding toward more secure and less costly data connections or the amount of electricity to be produced in the coming years.

In that regard it is important that the Icelandic government listens to industry players and takes a look at the issues highlighted by DCI in the coming year.

Jóhann Þór Jónsson

Chairman of DCI // Advania Data Centers

DCI (Data Centers in Iceland) operates within the Federation of Icelandic Industries (SI) and represents the interests of data centers in Iceland. By the end of 2016 there were eight member companies in DCI. The companies are: Advania Data Centers, Borealis Data Center, Nýherji, Opin Kerfi, Sensa, Síminn, Verne Global and Vodafone. 6 board meetings were held as well as a number of conference calls and an all-member meeting.

PE issues resolved

A new legislation regarding permanent establishments (PE) was passed in October. The new legislation eliminated the uncertainty that customers of data centers had previously faced as the definition of the term „permanent establishment" had not been clear in Icelandic laws. The new legislation was put forward by the Minister of Finance and Economic Affairs under the legislation for action against tax evasion. A detailed debate took place within the economic and eommerce committee in parliament on the matter while it was in the hands of the committee. The bill was approved with a broad consensus, which shows the importance that all parties in parliament take part in the progress and further development of the data center industry in Iceland.

X Hugvit

X-Hugvit was a democratic forum that was set up for the 2016 parliament elections to promote issues important to the creative industries. The vision for the project was for Iceland to become an ideal country for innovation and creativity.

The movement presented issues for the parliamentary elections in Iceland during the fall of 2016. The idea behind the movement was created by the Creative Industries Board (Hugverkaráð) within the Federation of Icelandic Industries (SI). The board was composed of members from all the professional groups within the creative industries sector of SI. These include members of the IGI (Icelandic Game Industry), SUT (Association of Information & Technologies), DCI (Data Centers Iceland), SHI (Federation of Icelandic Medico Industry), SÍK

(Association of Icelandic Film Producers), SSP (Association of Startup Companies), and SÍL (Association of Icelandic Biotech Companies).

Many of the findings and the input from X-Hugvit had a considerable impact and made it all the way to the new governments policy statement. Ministers were personally engaged and have repeatedly quoted the outcome and the work that was done during and in X-Hugvit.

Innovation bill passed

The new innovation bill was passed in June. The highlights of the bill are the following:

- Employee stock options are now taxed at the sale of the stock
- Convertible bonds got a better treatment. No longer do investors need to pay taxes on "gains" when they convert their bond into equity
- Foreign specialists get a special 25% tax discount for 3 years
- A rise in the R&D tax return ceiling is a part of the new law. Companies can now get up to a 300 mISK refund for R&D, up from 100 mISK before
- Tax deduction for angel investors. The bill gives a tax deduction for up to 50% of investments that are at least 300k ISK. The maximum refund per year is for a 10m ISK investment, so a total deduction of 5m ISK. This means, if you invest for 10m ISK, you can deduct 5m ISK from your tax base (income and financial gains combined). Companies and investors need to fulfil a list of requirements to be eligible.

The bill was a good start although there are some improvements that can be made that DCI and SI will continue to work on.

Connectivity report

A report on the data center industry was in the plans for the Ministry of the Interior to be commissioned in 2016 but was delayed due to the early elections. DCI in co-operation with SI submitted a 22 page report titled „*The economic impact of data centers*" that was presented to the ministry as input for the report.

Parliament committee meetings

DCI discussed the issue of bandwidth with the constitutional and supervisory committee (stjórnskipunar- og eftirlitsnefnd) to follow up on the connectivity report. DCI was invited in front of the committee as well as the Icelandic national audit office (Ríkisendurskoðun). The main focus was on the operating model of Farice and the fact that the company was losing money each year but only using part of the cable, and customers complain about prices. It was further highlighted that the government needed to take clear ownership of the connectivity issue since it is a matter of national security to have this under tight control and without uncertainty to the future. The meeting went well and everyone at the committee got copy of the report on the economic impact of data centers.

DCI also met with the economic and commercial committee (efnahags- og viðskiptanefnd) to discuss PE issues.

Changes and developments in 2017

The first months of 2017 have been eventful in DCI. The board kicked off the year with two all-member meetings focusing on issues of connectivity and electricity. The goal of the meetings was to identify the key issues to focus on in 2017 and resulted in a clear agenda for the coming months. As a part of going forward with the issues decided on in the meetings, DCI invited Þórdís Kolbrún R. Gylfadóttir, Minister of Industry, and Jón Gunnarsson, Minister of Transport and Local Government to visit Verne Global and Advania's data centers at Fitjar in April and hear about the opportunities and challenges facing the data center industry. DCI will continue the dialogue with the Ministries in the coming weeks and months.