



One

COMMUNICATIONS

SIX MONTH
REPORT 2017

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A Report from the CEO

In our last year end report, we wrote about the numerous projects that we've undertaken in Bermuda and Cayman to execute on our business plan to improve network reliability and streamline our customer experience. I'm pleased to report that during the last six months, we've made steady progress on these projects and with this period's financial results, are beginning to see the positive impact of the hard work undertaken by our team.

As of September 2017, our FibreWire network build in Bermuda has passed almost 50% of our customer base, providing us with a rapid and cost effective means of automatically boosting internet speeds at no extra charge to our customers. On the wireless side, our customers continue to take full advantage of the 4G LTE network, while we add coverage and more capacity to meet growing customer data demand. We were also very pleased to be selected as the official local telecoms provider for the 35th America's Cup. We commend our employees for providing spectators, race teams and the America's Cup officials with not just wireless and fixed connectivity services during the world class sporting event, but also the ability to live stream video of the racing around the globe.

In Cayman, we continue with our fibre to the home network infrastructure build to support both our TV and internet products, although we continue to face the high cost and associated delays of securing pole attachments from the local electricity utility provider.

Our next major network investment to enhance the customer experience focuses on our video offering in Bermuda. This new video platform, expected to launch in 2018, will revolutionize our subscription TV product. The video upgrade, our FiberWire network and our 4G LTE are all part of our business plan to bring Bermuda customers a single comprehensive communications provider, putting all key products under a unified brand, with a much simpler and far improved customer experience. Unfortunately, due to internal program delays and onerous regulatory conditions that restrict our retail offers, including our ability to provide the convenience of bundled services to our customers, our implementation timelines are being pushed out.

Our financial statements are beginning to reflect the positive impact of our improved infrastructure, better customer experience and increased operating efficiency and we expect that positive trend to continue moving forward as we stay focused on increasing shareholder value. No comparative financial statements are presented for this period as the accounting for the announced transaction and the change to the Company's fiscal year end to December 31, have made a comparison not meaningful.

The financial results also benefited from approximately 108,000 shares being repurchased and cancelled under the stock repurchase program for 2017. The program reflects management's confidence in the improving underlying value of the business, and will continue to serve as a tool for returning value to shareholders.

Financial Summary – June 30, 2017

The unaudited financial statements enclosed within this Report present the six month period ended June 30, 2017.

Comprehensive income attributable to equity holders of the Company for the period was \$7.1 million which includes a \$0.8 million reclassification for a gain on sale of equity securities. Operating income was \$7.9 million and net income was \$8.0 million. Earnings before interest, depreciation, amortization and one-time charges for the period were \$16.4 million. Consolidated revenue for the period was \$63.4 million and operating expenses were \$55.5 million.

The Company paid \$4.3 million in principal on its loan for the period and refinanced its debt in June 2017 (see Note 8). The Company had \$36.2 million in long term debt outstanding and no overdraft borrowings at June 30, 2017. The Company had \$17.6 million in cash at the end of the period.

Earnings per share for the six months ending June 30, 2017 was \$0.19.

FRANK AMARAL
CHIEF EXECUTIVE OFFICER

Board of Directors

CHAIRMAN

Gary L. Phillips, OBE, J.P., CIARB

Chevalier de la Legion d'Honneur

DEPUTY CHAIRMAN

Mr. Kurt Eve

Cofounder

Bermuda Digital Communications Ltd.

Ms. Fiona E. Beck

ACBDA - Telecommunication Chair

Charles Jillings

Director

Somers Limited

Director

ICM Limited

Mr. E. Michael Leverock, B. Eng., P. Eng., MBA

Cofounder

Bermuda Digital Communications Ltd.

Mr. Michael Prior

Chief Executive Officer

ATN International

Mr. Justin Benincasa

Chief Financial Officer

ATN International

Executives and Officers

Mr. Frank Amaral

Chief Executive Officer

Ms. Leslie Rans, CPA

Chief Financial Officer

Mr. Michael Tanglao

General Counsel

Secretary

Common shares held by Directors – 2,204,349

Common shares held by One Communications Ltd. Executive Management – 3,238

No rights to subscribe to shares or debt securities in the Company have been granted to, or exercised by, any Director, Officer or member of One Communications Ltd. Executive Management.

There are no contracts of significance subsisting during or at the end of the financial year in which a Director was materially interested either directly or indirectly.

Consolidated Balance Sheet

(Unaudited) June 30, 2017

(in thousands, except per share data)

June 30, 2017 December 31, 2016

ASSETS

Current assets

Cash and cash equivalents	\$ 17,589	\$ 15,636
Accounts receivable, net of allowances of \$2,456 and 2,664, respectively	7,943	8,615
Materials and supplies	876	596
Other current assets	2,786	1,851
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	29,194	26,698

Non-current assets

Fixed assets	133,310	126,394
Intangible assets	24,480	25,347
Goodwill	3,740	3,740
Other assets	319	3,174
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Total assets

\$ 191,043	\$ 185,353
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LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Accounts payable and accrued liabilities	\$ 19,596	\$ 22,660
Unearned income	4,256	4,854
Current portion of long term debt	3,750	8,036
Other current liabilities	388	1,903
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	27,990	37,453

Non-current liabilities

Long-term debt, excluding current portion	32,487	24,107
Other non-current liabilities	616	616
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Total liabilities

\$ 61,093	\$ 62,176
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SHAREHOLDERS' EQUITY

Common Stock, \$0.25 par value per share; 58,000,000 shares authorized;

42,238,306 shares issued and outstanding at June 30, 2017;

42,346,127 shares issued and outstanding at December 31, 2016

	10,561	10,587
Additional paid in capital	96,921	96,921
Accumulated other comprehensive income (loss)	(90)	831
Retained earnings	22,558	14,838
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Total equity

129,950	123,177
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Total liabilities and shareholders' equity

\$ 191,043	\$ 185,353
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Consolidated Statement of Comprehensive Income

(Unaudited) For the six months ended June 30, 2017

(in thousands, except per share data)

	2017
TOTAL REVENUES	<u>\$ 63,363</u>
OPERATING EXPENSES	
Termination and access fees	19,135
Engineering and operations	10,066
Sales and marketing	5,828
Equipment expense	2,559
General and administrative	9,346
Depreciation and amortization	8,573
Total operating expenses	<u>\$ 55,507</u>
Operating income	7,856
OTHER INCOME / (EXPENSE)	
Gain on disposition of available for sale securities	831
Interest income	16
Interest expense	(718)
Other expenses, net	(14)
Other expense, net	<u>115</u>
Net Income	<u>\$ 7,971</u>
NET INCOME PER SHARE	<u>\$ 0.19</u>
SHARES OUTSTANDING	42,238,306
Net income	7,971
Reclassification of gains on sale of available for sale securities to net income	(831)
Net unrealized gains on available for sale securities	(90)
COMPREHENSIVE INCOME	<u>7,050</u>

Consolidated Statement of Changes in Shareholders' Equity

(Unaudited) For the six months ended June 30, 2017

(in thousands)

		Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance December 31, 2016	\$	10,587	96,921	14,838	831	123,177
Net Income		-	-	7,971	-	7,971
Other comprehensive income						
Change in value of available for sale securities		-	-	-	(90)	(90)
Reclassification of gains on sale of available for sale securities to net income		-	-	-	(831)	(831)
Share buyback		(26)	-	(251)	-	(277)
Balance June 30, 2017	\$	10,561	96,921	22,558	(90)	129,950

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(Unaudited) for the six months ended June 30, 2017

(in thousands)

	2017
Cash flows from operating activities	
Net income	\$ 7,971
Adjustments to reconcile net income to net cash flows provided by operating activities:	
Depreciation and amortization	8,573
Provision for doubtful accounts	524
Gain on disposition of available for sale securities	(831)
Changes in operating assets and liabilities:	
Accounts receivable	129
Materials and supplies	(280)
Prepaid expenses and other current assets	(934)
Accounts payable and accrued liabilities	(4,580)
Unearned income	(598)
Net cash provided by operating activities	\$ 9,974
Cash flows from investing activities	
Capital expenditures	(14,602)
Proceeds from dispositions of available for sale securities	1,757
Proceeds from dispositions of investment in associates	1,008
Net cash used for investing activities	\$ (11,837)
Cash flows from financing activities	
Principal repayments of long term debt	(4,286)
Proceeds from issuance of debt	8,379
Share buyback	(277)
Net cash provided by financing activities	\$ 3,816
Net change in cash and cash equivalents	\$ 1,953
Cash and cash equivalents, beginning of period	\$ 15,636
Cash and cash equivalents, end of period	\$ 17,589

During the period the Company paid \$0.6 million in loan interest.

Notes to Consolidated Financial Statements

(Unaudited) for the six months ended June 30, 2017

1. Nature of the Business

One Communications Ltd. (the “Company” or “One Comm”) is incorporated in Bermuda under the Companies Act 1981. The Company through its subsidiaries, is a supplier of information and communication services, providing a wide range of data, internet, voice, and media services. On May 3, 2016, the Company issued shares of common stock to acquire Bermuda Digital Communications Ltd. (“BDC”) a provider of wireless telecommunication services in Bermuda. The transaction was accounted for as a reverse acquisition under which BDC is treated as the accounting acquirer and the Company is treated as the accounting acquiree (refer to Note 4). Prior to February 2017, the Company operated under its former name KeyTech Limited.

The Company is listed on the Bermuda Stock Exchange (“BSX”) and has operations in Bermuda and the Cayman Islands. The registered office is located at 30 Victoria Street, Hamilton, HM 12, Bermuda.

ATN International, Inc. (the “Parent”) owns a controlling interest in the Company. The Parent is a listed company on the NASDAQ stock exchange.

The Company’s following subsidiaries operate in Bermuda:

Logic Communications Ltd. (trading as One Communications) – following the merger of Logic and Bermuda Cablevision Limited (“BCL”) in July 2015, this company now provides a wide range of data internet products and services, internet access, long distance and local voice services as well as subscription television services in Bermuda.

Bermuda Digital Communications Ltd. (trading as One Communications) – provides a range of cellular products and solutions in Bermuda.

Cable Co. Ltd. – provides international data services on its submarine cable system between Bermuda and the United States.

The following subsidiary operates in Cayman:

WestTel Limited (trading as Logic) – provides fixed wireless, wireline voice and data services, and subscription television services in the Cayman Islands.

2. Significant Accounting Policies

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim period financial information. As a result, these interim unaudited consolidated financial statements do not include all the information and disclosures required by U.S. GAAP for complete financial statements. In addition, the year-end balance sheet was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. These interim unaudited consolidated financial statements should be read in conjunction with the Company’s annual financial statements as of December 31, 2016. These consolidated financial statements include the accounts of the Company and its subsidiaries.

3. Related Party Transactions

The Company incurred management fees of \$1.3 million for the period ended June 30, 2017, in respect of a management services contract entered into on May 3, 2016, with its Parent. Management fees are calculated at 2% of gross revenues, pursuant to its management contract \$0.7 million remained outstanding at June 30, 2017. The management fee will increase to 2.75% effective August 1, 2017.

The Company also purchased goods and other services from its Parent and its affiliates, amounting to \$1.2 million for the period ended June 30, 2017, of which \$1.2 million was payable at June 30, 2017. These related party balances are unsecured, interest free, and are due on demand.

Notes to Consolidated Financial Statements

(Unaudited) for the six months ended June 30, 2017

4. Acquisitions and Dispositions

Acquisitions

On October 05, 2015, the Company and ATN entered into a transaction agreement (the “Transaction”). Upon the closing of the Transaction, on May 3, 2016, ATN acquired a 51% controlling interest in the Company and in exchange the Company received \$41.6 million in cash and ATN’s 43% controlling interest in Bermuda Digital Communications Ltd. (“BDC”). In addition, the Company also acquired the remaining shares in BDC held by other minority shareholders, in exchange for shares in the Company. As a result, the Company is the legal owner of 100% of BDC. Concurrent with the transaction, the Company used a portion of the cash proceeds received to retire the Company’s \$24.7 million of subordinated debt and pay a dividend of \$0.75 per share to the shareholders of the Company existing immediately prior to the closing of the Transaction.

While under the Transaction the Company legally acquired BDC, under ASC 805, Business Combinations, the transaction is required to be accounted for as a “reverse acquisition” under which BDC is required to be considered the “accounting acquirer”. As such, these financial statements are issued under the name of the legal acquirer, the Company, but represent a continuation of the accounting acquirer’s financial statements.

The consideration transferred in a reverse acquisition is typically determined with reference to the value of the equity that the accounting acquirer would have had to issue to the owners of the accounting acquiree to give them the same percentage interest in the combined entity. However, as BDC is, and was not, itself a public company it was determined that the fair value of the Company’s net assets provided a more reliable determination of the value of the consideration transferred.

The following table summarizes the allocation of the purchase consideration to the assets and liabilities assumed at their estimated fair values as of the date of the acquisition:

(\$000)	Amount
Consideration Transferred	
One Comm equity	\$ 74,528
Non-controlling interests	203
Total value to allocate	<u>74,731</u>
 Purchase price allocation	
Cash	\$ 8,185
Accounts receivable	6,451
Other current assets	3,241
Property, plant and equipment	100,892
Intangible assets	10,590
Other assets	3,464
Accounts payable and accrued liabilities	(16,051)
Advance payments and deposits	(6,683)
Current debt	(6,429)
Long term debt	(28,929)
Net Assets Acquired	<u>\$ 74,731</u>

The property, plant and equipment is comprised of telecommunication equipment, land, and buildings located in Bermuda and the Cayman Islands. The property, plant and equipment was valued using the income and cost approaches. Cash flows were discounted at approximately 15% to determine fair value under the income approach. The property, plant and equipment have useful lives ranging from 2 to 35 years and the customer relationships acquired have useful lives ranging from 9 to 12 years. The fair value of the non-controlling interest was determined using the income approach and a discount rate of approximately 15%. The acquired receivables consist of trade receivables incurred in the ordinary course of business. The Company has collected the full amount of the receivables.

Notes to Consolidated Financial Statements

(Unaudited) for the six months ended June 30, 2017

5. Investments

On April 7, 2017, the Company sold all of its equity interest in Quo Vadis Limited to WISEKey SA a company listed on the Swiss stock exchange. The Company received \$1.0 million in cash and 88,800 shares of WISEKey, valued at \$0.4 million for a total consideration value of \$1.4 million on that date. The Company did not recognize a gain or loss on the transaction.

Between March and April 2017, the Company sold available for sale securities receiving proceeds of \$1.8 million. The securities had a cost of \$1 million resulting in a gain of \$0.8 million.

6. Equity

In January 2017, the Company's board of directors approved a share repurchase plan effective from March 1, 2017 to December 31, 2017, and restricted to a maximum of 5% of the Company's outstanding Share Capital. Through June 30, 2017, the Company repurchased 108 thousand shares for \$277 thousand. All shares repurchased under the program are retired.

7. Segment Reporting

Reportable segments correspond to the Company's internal organizational structure. The Company operates the following reportable segments, which are managed as separate business units, as they both operate in different geographic regions, and therefore require different market strategies.

The Company's Bermuda segment operates under the brand 'One' providing a wide range of data internet products and services, cellular products and solutions, internet access, long distance and local voice services as well as subscription television services in Bermuda.

The Company's Cayman segment operates under the brand 'Logic' providing fixed wireless, wireline voice and data services, and subscription television services in the Cayman Islands.

For the six month period ended June 30, 2017 (in \$000)	Bermuda		Cayman		Corporate and Other		Total
Revenues	\$	52,510	\$	13,079	\$	(2,226)	\$ 63,363
Depreciation and amortization		6,639		1,856		78	8,573
Operating expenses		34,380		10,732		1,822	46,934
Segment operating income / (loss)		11,491		491		(4,126)	7,856
Net fixed assets	\$	70,889	\$	36,405	\$	26,016	\$ 133,310
Capital expenditures		11,750		2,738		114	14,602
Goodwill		3,740		-		-	3,740
Segment total assets		119,250		39,026		32,761	191,037

Corporate and other includes corporate overhead items and consolidating adjustments.

8. Long Term Debt

On May 22, 2017, the Company amended and restated the long term debt agreement with HSBC Bank Bermuda Limited to increase the facility to \$37.5 million. The amended and restated debt is scheduled to mature on May 22, 2022 and bears an interest at the three month LIBOR rate plus an applicable margin rate ranging between 2.5% to 2.75% paid quarterly. The amended and restated Debt contains customary representations, warranties and affirmative and negative covenants (including limitations on additional debt, guaranties, sale of assets and liens) and financial covenants that limit the ratio of tangible net worth to long term debt and total net debt to certain earnings metrics and require a minimum debt service coverage ratio (net cash generated from operating activities plus interest expense less net capital expenditures to debt repayments plus interest expense). The covenants are tested annually commencing the fiscal year ending December 31, 2017. The Company has pledged substantially all of the assets of the Company to guarantee the debt.

Notes to Consolidated Financial Statements

(Unaudited) for the six months ended June 30, 2017

In connection with the amended and restated debt, the Company increased the limit of its overdraft facility from \$5.0 million to \$10.0 million. This facility has an interest rate of three month LIBOR plus 1.75%.

As a condition of the amended and restated agreement, the Company was required to enter into a hedging arrangement equal to at least 30% of the notional amount of the debt and a term equal to the maturity of the debt. On July 14, 2017, the Company entered into a swap transaction effective June 30, 2017 for a notional amount of \$11.0 million with a fixed rate of 1.874%. The fair value of the hedge was nil at its inception.

PRINCIPAL SUBSIDIARIES

Logic Communications Ltd.

(trading as "One Communications")

30 Victoria Street

Hamilton HM 12

Bermuda

www.onecomm.bm

Bermuda Digital Communications Ltd.

(trading as "One Communications")

30 Victoria Street

Hamilton HM 12

Bermuda

www.onecomm.bm

Cable Co. Ltd.

30 Victoria Street

Hamilton HM 12

Bermuda

WestTel Limited

(trading as "Logic")

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Grand Cayman

Cayman Islands

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