

October 31st 2017

Fjarskipti hf. Q3 2017 financial results:

Roam like Home Regulation affects Q3 earnings

The Board of Directors and CEO approved the Q3 2017 financial statement of Fjarskipti hf. at a Board meeting on October 31st 2017.

- Consolidated revenues amounted to ISK 3,437 m and remained similar to Q3 2016
- Gross profit amounted to ISK 1,550 m, a decrease of 6% compared to Q3 2016
- EBITDA amounted to ISK 853 m, a decrease of 8% compared to Q3 2016
- EBITDA margin was 24.8% and EBIT margin 13.3%
- Profits in the quarter amounted to ISK 290 m
- Equity ratio of 50.4% at quarter end

Key financials:

ISK m	Q3 2017	Q3 2016	Change	% Change	9M 2017	9M 2016	Change	% Change
Revenue	3,437	3,443	-6	0%	9,964	10,205	-241	-2%
Cost of Sales	1,887	1,786	101	6%	5,458	5,402	56	1%
Gross profit	1,550	1,657	-107	-6%	4,506	4,803	-297	-6%
Operating costs	1,092	1,080	12	1%	3,329	3,498	-169	-5%
EBITDA	853	927	-74	-8%	2,334	2,346	-12	-1%
EBIT	458	577	-119	-21%	1,177	1,305	-128	-10%
Net financing costs	96	90	6	7%	265	262	3	1%
Profit for the period	290	391	-101	-26%	730	837	-107	-13%
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<i>Gross margin (%)</i>	45.1%	48.1%			45.2%	47.1%		
<i>EBITDA %</i>	24.8%	26.9%			23.4%	23.0%		
<i>EBIT %</i>	13.3%	16.8%			11.8%	12.8%		

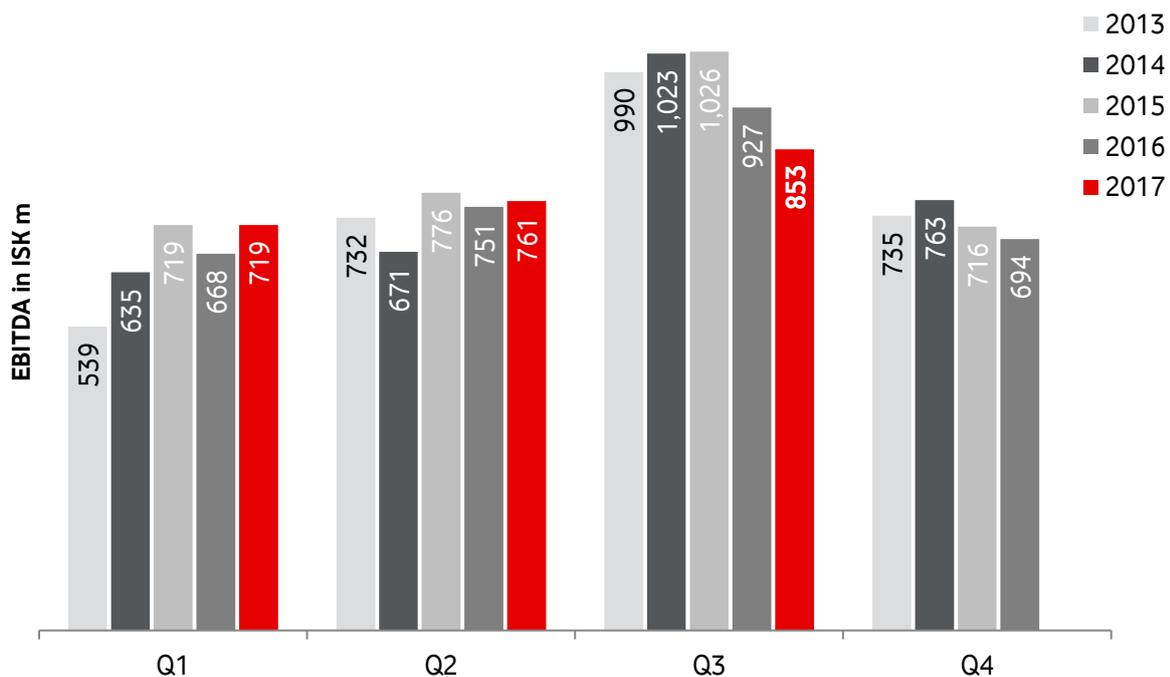
Stefán Sigurðsson, CEO:

„Operations during Q3 2017 were marked by effects of Roam like Home regulation changes. The changes had considerable negative effects on the company’s revenues from mobile operations compared to Q3 2016. The total negative effects of the roam like home regulation were more than the entire EBITDA decrease between Q3 2017 and Q3 2016. These regulatory changes have most effect on the third quarter due to seasonality in mobile revenues because of customers’ travels and will have relatively lower effect in other quarters, as well as countervailing measures will start to have an effect in Q4 and 2018. TV services continued with 6% growth between quarters, following a steady growth trend during the past few years.

Operating costs in the third quarter remained at the same level from previous year despite of contractual increases in employee salaries. Reduction of labour- and staff cost has slowed down compared to 2016, which portrayed effects of Q1 and Q2 2016 cost reduction actions. The company continues to benefit from housing costs which reduced between years.

An important milestone in the acquisition of assets from 365 was reached during the quarter when an agreement was made with the Icelandic Competition Authority regarding the conditions for the acquisition. Amongst the conditions are actions to ensure competitiveness in the telecommunications and media market and support diversity in media market operators. The finalization of the acquisition is well under way, involving among other things going through traditional conditions precedent. The goal is to complete the acquisition by December 1st 2017. The management stands by its previous plans, in relation to the merger, of an EBITDA increase and synergies of ISK 1,750 m, which will add to the operations of Vodafone in 12-18 months. The full annual effects of the merger will be seen in 2019/2020, with clear objective of an EBITDA higher than ISK 5 bn.

Figure 1: EBITDA by quarter from 2013 - 2017:



Q3 2017 Financial Results:

The company' consolidated revenues during Q3 2017 amounted to ISK 3,437 m and remained in line with Q3 2016 revenues. Revenues from internet amounted ISK 1,032 m during the quarter, an increase of 17% from Q3 2016. The increase in internet revenues was particularly driven by the company' overtake of access fee collection from GR customers. Revenues from television services increased by ISK 32 m from previous year and amounted to ISK 531 m, which is a 6% increase. Revenues from mobile services amounted to ISK 1,092 m and decreased by ISK 137 m, or 11% compared to the same period in 2016. The effects of regulation changes for Roam like Home almost entirely cover the deviation in revenues between years. Retail product

sales in Q3 2017 amounted ISK 307 m, or ISK 32 m lower than in Q3 2016. Other revenues amounted to ISK 173 m during the quarter, a decrease of 7% between years.

Gross profit in Q3 2017 amounted to ISK 1,550 m, a decrease of ISK 107 m compared to Q3 2016. Operating costs amounted to ISK 1,092 m during the quarter, an increase of ISK 12 m (or by 1%) between years.

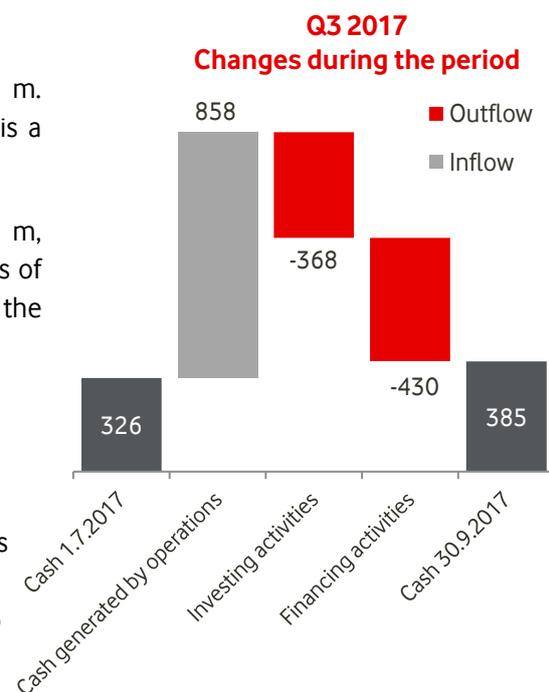
Q3 2017 EBITDA amounted to ISK 853 m, a decrease of 8% compared to Q3 2016. The EBITDA margin for Q3 2017 was 24.8%.

Net financing expenses amounted to ISK 96 m, an increase of 7% from previous year. Operating profit before taxes amounted to ISK 362 m in Q3 2017, calculated taxes amounted to ISK 72 m and net earnings amounted to ISK 290 m.

Q3 2017 Cash Flow:

Cash and cash equivalents from operations amounted to ISK 858 m. Investing activities amounted to ISK 368 m during the period which is a decrease of 25% compared to Q3 2016.

The company’s financing activities during Q3 2017 were ISK 430 m, repayments of long-term loans amounted to ISK 95 m and repayments of short-term debt amounted to ISK 335 m. Cash and cash equivalents at the end of Q3 2017 amounted to ISK 385 m.



Balance Sheet on September 30th 2017:

Equity amounted to ISK 7,737 m at end of the quarter. Equity ratio was 50.4%. The company’s total liabilities amounted to ISK 7,605 m. Net interest-bearing debt (NIBD) amounted to ISK 5,013 m and NIBD to EBITDA ratio for the last 12 months was 1.7. Current ratio was 1.5.

Main news and important events during Q3 2017:

- Vodafone is constantly putting effort into improving its systems by improving both speed and coverage abilities. The company’s 4G+ implementation has begun, which will increase the speed of the mobile phone system greatly during the next 5 months. Vodafone has very strong coverage with a 4G system, which covers 168 thousand square kilometers on land, and sea, which we consider the most coverage of any telecommunications company in Iceland. Vodafone has put a lot of focus on the quality of connections abroad. Vodafone in Iceland has a great collaboration with Vodafone Group, and builds on its extensive global footprint which has extensive global coverage. Vodafone Iceland offers its local clients high quality 4G connection in approx. 50 countries.



- Customers in the northern part of Iceland were provided with even more speed for their data connections than before, or 1000 Mb/s. These regions include the municipalities Akureyri, Dalvík, Þingeyjarsveit, Grenivík and Eyjafjarðarsveit.
- Vodafone and the Icelandic Association for Search and Rescue (Slysavarnafélagið Landsbjörg) joined forces for the cause “Be smart when steering the wheel” which is meant to change people’s habits towards usage of smartphones and reverse the unfavorable development of usage of smartphones in traffic.
- At the beginning of September 2017, Vodafone received the Golden Medal in PwC Iceland’s survey of gender pay gap of Icelandic companies. The survey showed that the difference in salaries between men and women was below the benchmark of 3.5%. The survey also showed that the difference was well below the benchmark.
- Vodafone received the Encouragement Award of Equality Rights. The objective of the award is to reward companies, which have focused on gender quality with positive publicity as well as to encourage other companies to do the same.

Financial guidance following the 365 acquisition

The planned merger of the assets of 365 is assumed to take place on the December 1st 2017 and will have considerable effect on the financial results. The management assumes ISK 1,750 m EBITDA and synergies that will be materialized in 12-18 months period, leading to EBITDA of more than ISK 5 bn and Capex ratio of around 8% in 2020. Further guidance for the merged company covering the years 2017-2020, can be found in the latest quarterly results presentation.

Presentation on November 1st 2017:

- An open management presentation meeting of the Q3 2017 financial results will take place on Wednesday November 1st 2017. The presentation will take place in Vodafone’s new headquarters at Suðurlandsbraut 8, 108 Reykjavík. The presentation will start at 8:30 am (GMT). Breakfast will be served from 8:00 am.
- Presentation material will be available after the meeting on the website: www.vodafone.is/vodafone/fjarfestatengsl and in the Nasdaq OMX Iceland news system.
- Please note that the meeting will also be webcasted in Icelandic at: <https://vodafone.is/vodafone/fjarfestatengsl/uppgjorskygning/>



Financial Calendar 2017:

- ✓ Q4 2017 Results and Consolidated Financial Statements 2017 on February 20th 2018

Further information:

- ✓ Guðfinnur Sigurvinsson, Marketing & Communications project manager, will take questions at fjarfestatengsl@vodafone.is or by phone at +354-669-9330