



28 February 2018

Press release regarding the results of Fjarskipti hf. for the fourth quarter and year of 2017:

## A New and Stronger Company Emerges

Fjarskipti hf.'s Annual Financial Statements for the operating year 2017 were approved by the company's Board of Directors and CEO at a Board meeting on 28 February 2018. The company's auditors have audited the financial statements and issued their unqualified opinion. The financial statements will be submitted for approval at the company's Annual General Meeting on 22 March 2018.

On 1 December 2017, Fjarskipti hf. finalised the acquisition of specified assets and operations of 365 miðlar hf. The Annual Financial Statements include one month of combined operations and financial position. In the below key figures, performance is adjusted with regards to the one-off costs of the acquisition. The one-off costs consist of fees for corporate, legal and financial advice and other contractual factors linked to the preparation of the transaction and finalization:

- Consolidated revenue in Q4 2017 amounted to ISK 4,304, which is a 25% increase from the previous year.
- Consolidated revenue for FY 2017 amounted to ISK 14,268 m, which is a 4% increase from the previous year.
- EBITDA in Q4 2017 amounted to ISK 803 m, a 16% increase between periods. Adjusted EBITDA, in accordance with the above, amounted to ISK 961 m, which is a 33% increase from the previous year.
- EBITDA for FY 2017 amounted to ISK 3,137 m, an increase of 3% from FY 2016. adjusted EBITDA amounted to ISK 3,338 m, which is a 9% increase from the previous year.
- The quarter's profits amounted to ISK 356 m, which is a 110% increase between periods. Profits adjusted for one-off costs amounted to ISK 482 m, which is a 150% increase from the previous year.
- The year's profits amounted to ISK 1,086 m, which is an 8% increase from the previous year. The year's adjusted profits amounted to ISK 1,247 m, which is a 21% increase from the previous year.
- Profits per share were 4.10. Profits per share, adjusted for one-off costs, were 4.70.
- The Group's operating investments amounted to ISK 1,664 m, which is an 8% increase from the previous year. The increase from the previous year was mainly due to the move to new headquarters.
- EBITDA for 2018 is estimated at ISK 4,000-4,400 m, with an investment ratio of 8-10%.
- The Board proposes that no dividends be paid for the operating year 2017.

**Table 1: Q4 Highlights and Q4 adjusted for one-off costs in 2017 and 2016:**

ISK m			Chg.	% chg.	Adjusted for one-off costs		Chg.	% chg.	
	Q4 2017	Q4 2016			Q4 2017	Q4 2016			
Revenue	4,304	3,450	854	25%	4,304	3,450	854	25%	
Cost of Sales	2,370	1,930	440	23%	2,370	1,930	440	23%	
Gross Profit	1,934	1,520	414	27%	1,934	1,520	414	27%	
Operating costs	1,560	1,193	367	31%	1,402	1,164	238	20%	
EBITDA	803	694	109	16%	961	723	238	33%	
EBIT	374	327	46	14%	532	356	176	50%	
Net Financials	109	90	19	21%	109	90	19	21%	
Net Profit	356	170	186	110%	482	193	289	150%	
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<i>Gross Margin (%)</i>	44.9%	44.1%			44.9%	44.1%			
<i>EBITDA %</i>	18.7%	20.1%			22.3%	21.0%			
<i>EBIT %</i>	8.7%	9.5%			12.4%	10.3%			

**Table 2: FY 2017 Highlights and FY adjusted for one-off costs in 2017 and 2016:**

ISK m			Chg.	% chg.	Adjusted for one-off costs		Chg.	% chg.	
	2017	2016			2017	2016			
Revenue	14,268	13,655	613	4%	14,268	13,655	613	4%	
Cost of Sales	7,829	7,332	497	7%	7,829	7,332	497	7%	
Gross Profit	6,439	6,323	116	2%	6,439	6,323	116	2%	
Operating costs	4,889	4,691	198	4%	4,688	4,658	30	1%	
EBITDA	3,137	3,040	97	3%	3,338	3,073	265	9%	
EBIT	1,550	1,632	-82	-5%	1,751	1,665	86	5%	
Net Financials	374	352	22	6%	374	352	22	6%	
Net Profit	1,086	1,007	79	8%	1,247	1,034	213	21%	
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<i>Gross Margin (%)</i>	45.1%	46.3%			45.1%	46.3%			
<i>EBITDA %</i>	22.0%	22.3%			23.4%	22.5%			
<i>EBIT %</i>	10.9%	12.0%			12.3%	12.2%			



## **Stefán Sigurðsson, CEO:**

“It was very enjoyable to close 2017 by combining these two strong entities. Although there has been only one month of combined operations, the positive effects are already apparent and will become stronger in the coming quarters and years. Despite the heavy strain and workload within the company during the last few months, everything has gone according to the plans laid out for the purchase.

Another milestone during the year was the company’s move to its new headquarters at Suðurlandsbraut 8. The project has gone very well and it is clear that the new setup will provide many opportunities for the new, combined company. All operations of the company are expected to move to our HQ in Suðurlandsbraut in 2018, including important media outlets such as Stöð 2, Bylgjan and Vísir, where the new headquarters will provide excellent working facilities for the employees. This is the beginning of a new company with a new way of working; I believe the future will provide numerous benefits for all stakeholders, customers, employees and owners.

In the market, the big news was the EU regulation to abolish roaming charges which put substantial pressure on mobile revenues, not least in the latter half of the year. Our approach to the change was to emphasize the high-quality service experience, which was well received by our clients. It was also positive to see a clear turnaround in operations in the Faroe Islands, as was expected, and increased operating profits are forecasted for 2018.

Recent news show that there are more opportunities to develop the company’s operations, e.g. the plans recently announced by RB, Opin kerfi and Korputorg to build a data centre at Korputorg. We believe strongly in Iceland’s opportunities to take part in this rapidly growing sector on a global basis, and wish to promote an environmentally friendly, secure and high-quality option for domestic and international parties. We believe that in this regard, we can provide our current corporate customers with increased services, as well as utilising our international network to find new customers overseas.”

Figure 1: EBITDA by quarter from 2013 - 2017

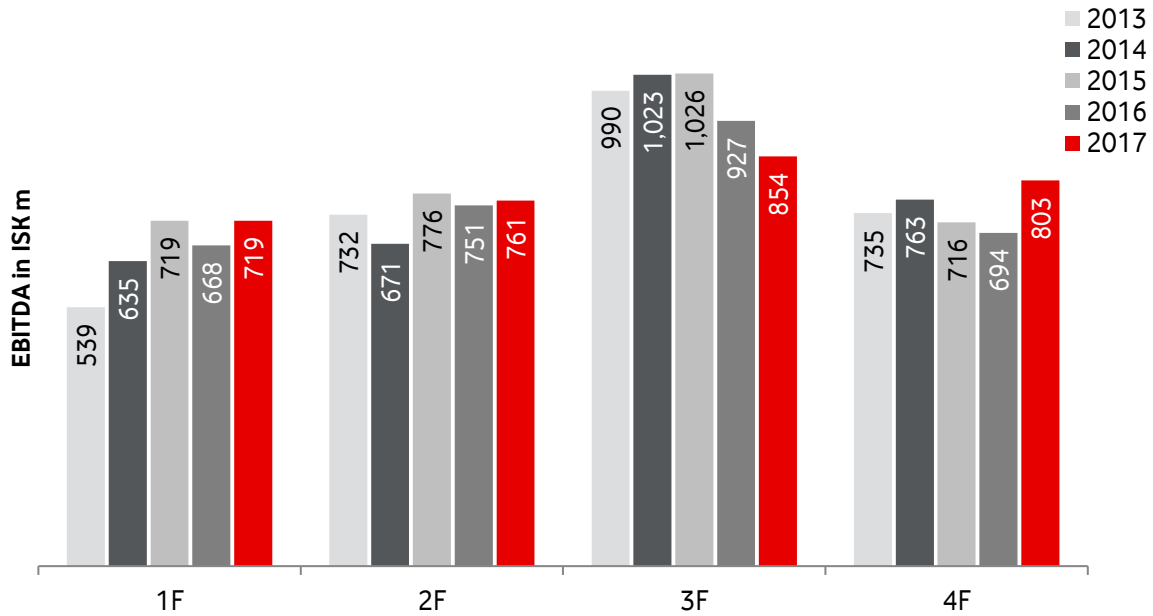
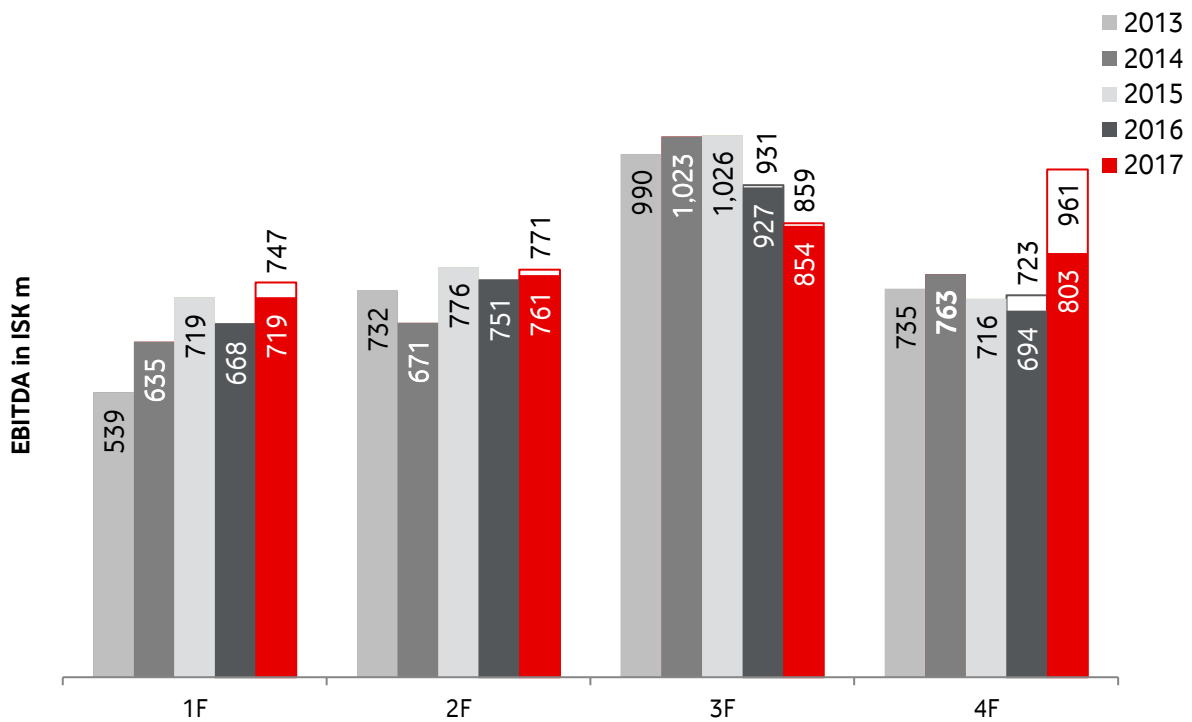


Figure 2: EBITDA by quarter from 2013 to 2017 – adjusted for one off items in 2016 and 2017:



**Table 3: Q4 Revenue and Q4 Revenue without the acquired**

	Q4				Q4 w/o the acquired			
	Q4 2017	Q4 2016	Chg.	% chg.	Q4 2017	Q4 2016	Chg.	% chg.
GSM	1,065	1,021	44	4%	1,026	1,021	5	0%
Broadband	1,093	886	207	23%	1,048	886	162	18%
Media	1,239	524	715	137%	536	524	12	2%
Fixed Line	312	311	1	0%	290	311	-21	-7%
Retail Sales	402	527	-125	-24%	402	527	-125	-23%
Other Revenue	193	181	12	7%	190	181	9	5%
<b>Total Revenue</b>	<b>4,304</b>	<b>3,450</b>	<b>854</b>	<b>25%</b>	<b>3,492</b>	<b>3,450</b>	<b>42</b>	<b>1%</b>

### Q4 2017 Operating results

The Group's income during Q4 2017 amounted to ISK 4,304 m, an increase of 25% from the same period the previous year. Income during the quarter consists of two months of operations of Fjarskipti hf. on its own and one month of the merged operations after the purchase. The increase in income in December from the new operations amount to ISK 812 m. The Group's operating segment overview contains a new operating segment – "media" – replaces "television". Media consists of income from the operation of broadcast media, TV subscriptions, advertisement, distribution systems, set-top boxes, TVOD, SVOD and PPV. Income from media amounted to ISK 1,239 m during Q4 and increased by 137% between years. The increase can for the most part be attributed to the new operations. Internet income amounted to ISK 1,093 m in the fourth quarter, an increase of 23% from the previous year, largely due to the collection of access fees from Gagnaveita Reykjavíkur. Mobile income amounted to ISK 1,065 m and increased by 4% between years. Mobile income excluding the acquired operations. increases slightly between years. Income from retail sales amounted to ISK 402 m during the period, a 24% decrease as compared to the same period in 2016. Income from fixed line services amounted to ISK 312 m during the quarter and did not change between years. Other revenue amounted to ISK 193 m during the quarter, increasing by 7% from the previous year.

Cost of sales amounted to ISK 2,370 m, increasing by 23% between years, particularly due to the effects of new operations and the collection of access fees from Gagnaveita Reykjavíkur. Operating expenses amounted to ISK 1,560 m, whereof one-off costs for the purchase of specific assets and operations of 365 Miðlar hf. amounted to ISK 158 m. EBITDA for the period amounted to ISK 803 m, an increase of 16% or ISK 109 m, based on the same quarter in 2016, the EBITDA ratio was 18.7% and the EBIT ratio was 8.7%. If adjusted for one-off costs, EBITDA would have amounted to ISK 961 m; the EBITDA ratio for the period would have been 22.3% and the EBIT ratio 12.4%. One-off costs had a significant effect on the quarter. The detailed overview above shows results and multiples with and without adjustment for defined one-off cost items.

Net financial expenses in the fourth quarter amounted to ISK 109 m, which is a 21% increase from the previous year. The increase is mainly due to higher interest expense resulting from the financing of the acquisition of specified assets and operations of 365 miðlar hf.

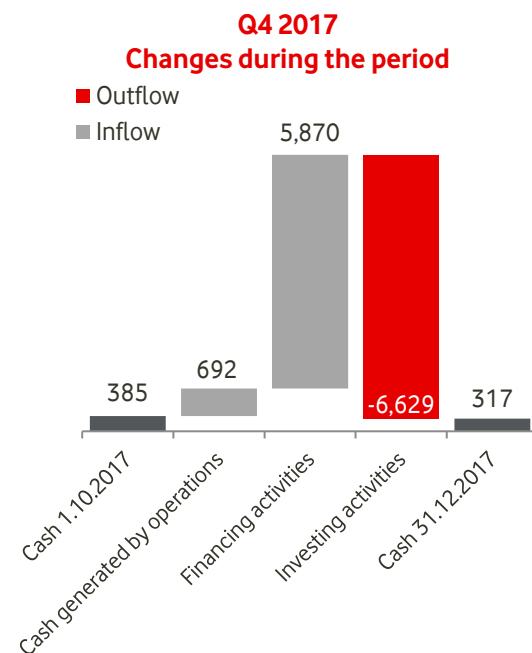
Profits before income tax in the fourth quarter of 2017 amounted to ISK 265 m, which is an increase of ISK 28 m from the same quarter in 2016. Quarter profits after taxes amounted to ISK 356 m, and ISK 482 m when adjusted for one-off costs.

Table 3 above shows income with and without the purchased assets. Separation of costs for the units purchased from 365 miðlar hf. is not possible, due to the fact that many joint vendors of both companies do not send separate invoices and the merging of other operations of the purchased entity with the company's current operations. It is therefore not possible to publish operational figures for operations prior to the purchase or the purchased entity. Direct and defined costs of the purchase amounted to a total of ISK 234 m. ISK 201 m were incurred in 2017 and ISK 33 m in 2016.

### Q4 2017 Cash Flow:

Cash and cash equivalents from operations amounted to ISK 692 m. Investing activities amounted to ISK 6,629 m during the period, of which ISK 436 m are due to reinvestment needs, a decrease of 12% compared to Q4 2016.

The company's financing activities during Q4 2017 were ISK 5,870 m. A new long term loan amounting to 4,661 m and a credit line amounting to 1,401 m was utilised for the acquisition. Repayments of long-term loans amounted to ISK 108 m. Cash and cash equivalents at the end of Q4 2017 amounted to ISK 317 m.



### FY 2017 Financial Results:

The company's consolidated revenues for 2017 amounted to ISK 14,268 m, an increase of ISK 613 m or 4% between 2016 and 2017. Cost of sales amounted to ISK 7,829 m, an increase of ISK 497 m or 7%. Gross profit in 2017 amounted to ISK 6,439 m, gross profit margin was 45.1% compared to 46.3% in 2016. Operating costs amounted to ISK 4,889 m., of which one-off costs amounted to ISK 201 m. One-off-costs in 2016 amounted to ISK 33 m. EBITDA 2017 amounted to ISK 3,137 m, an increase of ISK 97 m or 3% compared to 2016. The EBITDA margin for 2017 was 22.0% compared to 22.3% in 2016, and EBIT 10,9%. When one-off costs are taken into consideration the EBITDA would have amounted to ISK 3,338 m. The EBITDA margin 23.4% and EBIT margin 12.3%. The company's operating profit amounted to ISK 1,086 m. in 2017 and increased by 8% compared to 2016, if adjusted for one-off costs the operating profit is ISK 1,247 m.

## Balance sheet on December 31st 2017:

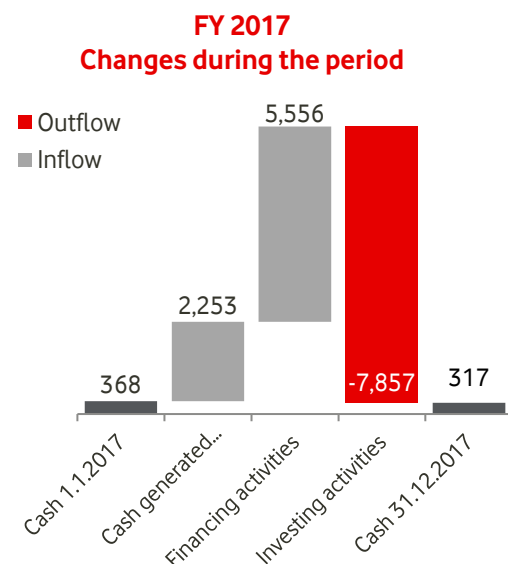
Total equity amounted to ISK 10,131 m at end of the quarter. Equity ratio was 39.9%. This year the company sold own shares at nominal value of 85 m and issued new shares at nominal value for 239 m in connection to the companies acquisition of 365 miðlar hf.'s certain assets and operations. Outstanding shares amounted to 2,964 m at year end.

The company's total liabilities amounted to ISK 15,245 m. Net interest-bearing debt (NIBD) amounted to ISK 11,033 m and NIBD to EBITDA ratio for the last 12 months was 3.5. Only one month of the new operation is included in the EBITDA, which effects the ratio. Current ratio was 1.2.

## 2017 Cash flow:

Cash and cash equivalents from operations 2017 amounted to ISK 2,253 m. Investing activities amounted to ISK 7,857 m during the period, of which investments related to reinvestment requirements amount to 1,664 m during the period which is an increase of around 8% compared to the same period in 2016. Investment due to new headquarters amount to 220 m.

The company's financing activities during 2017 were ISK 5,556 m. A new long term loan amounting to 4,661 m and a credit line amounting to 1,401 m was utilised for the acquisition. Repayments of long term-loan amounted to 421 m. Cash and cash equivalents at the end of 2017 amounted to ISK 317 m.



## Financial guidance :

Management expects that operations can range between ISK 4,000 – 4,000 m. in 2018, but merger synergies will be more prominent in the second half 2018 even stronger 2019 with full effect in 2020 (see further the investor presentation). EBITDA in 2020 is expected to above ISK 5,000 m.

Capex ratio is estimated at 8-10% this year. The range is due to intergration costs, regarding housing and IT. It is expected that the capex ratio will decrease to around 8% when fully integrated.

## Main news and important milestones during the period



- In February 2017, Huawei and Vodafone Iceland initiated an experimental project using the NB-IoT technology, Narrowband Internet of Things, which enables Icelanders to be among the leading nations in the Internet of Things revolution over the coming years.
- In mid-March, Fjaraskipti hf., the parent company of Vodafone Iceland, received an award as a "Model Company in Good Corporate Governance" for the third year in a row. The Corporate Governance Research Centre at the University of Iceland presents the award.
- In May, Vodafone Iceland reached an agreement with Samsung, one of the largest electronics companies in the world, for the purchase of the next generation of Set-Top-Boxes for Vodafone Sjónvarp (Vodafone TV). The new box will simplify things for users as a single remote control that will work for both the television and the box. Ultra-high definition (UHD) provides four times greater image definition than the most common high-definition (HD) transmissions.
- The company's new headquarters opened at Suðurlandsbraut 8 at the beginning of June, as did a new and elegant store on the ground floor of the building. The design and arrangement of the new store was carried out in close cooperation with Vodafone Group and created in accordance with the appearance that the telecommunications company has prepared for its outlets globally. The store at Suðurlandsbraut is the third in Iceland that is created in this form and is one of the largest of its kind in the world.
- Vodafone placed great importance on the extent of its transmission area as regards 4G services and the system currently covers 170 thousand square kilometres on land and sea, which is the greatest transmission area of the 4G mobile systems in Iceland. The system reaches approximately 98% of Icelanders according to residency.
- Vodafone was awarded PwC's gold medal in the company's equal wage audit in Iceland. The equal wage audit of PwC confirms that the difference between the wages of men and women at Vodafone is less than 3.5% and, in the case of Vodafone, it was quite far below this benchmark. Vodafone also received the Equal rights Incentive Award, the goal of which is to draw positive attention to companies that have focused on equal rights issues as well as to encourage other companies to do the same.
- Following the signing of the purchase agreement between Fjaraskipti and 365 miðlar hf. in March, the Competition Authority was sent formal notification of the merger. Procedures before the Authority went on until early October, when a settlement was reached between Fjaraskipti and the Competition Authority. The settlement stated that the Competition Authority approved the merger with conditions. On 1 December 2017, Fjaraskipti hf. took over the operation which included media such as Stöð 2, Stöð 2 Sport, Bylgjan, FM957, Xið, Vísir, the news desk and advertising and subscription sales. These units, their staff and management, were transferred to a new division named Miðlar within Fjaraskipti. Björn Víglundsson was recruited as the Managing Director of the new division.
- A new and better Vodafone TV was presented in November. Upgrades were carried out in several stages. The upgrades were carried out to meet the requests and suggestions that had been received from user surveys. The upgrades principally involve the redesign of layout and improved user interface for customers.





- In early February 2018, Fjarskipti hf. signed a partnership agreement with Knattspyrnusamband Íslands (KSÍ) (the Football Association of Iceland) and has, thereby, become one of their sponsors with the shared goal of increasing interest in the sport, supporting the work of the men's and women's national teams and supporting grassroots work throughout Iceland. The partnership agreement between Vodafone and KSÍ is effective for three years. The agreement means that Vodafone will be responsible for telecommunications services for KSÍ and will provide the association with technical assistance.
- The first data centre in Reykjavík will be constructed at Korputorg in 2018, the agreement for which was signed at Korputorg in February this year. The centre will be an environmentally friendly high-tech data centre owned by Opin Kerfi, Vodafone, Reiknistofa bankanna (the Iceland Banks' Data Centre) and Korputorg ehf. The centre is expected to be one of the most technologically advanced and powerful in Iceland. The centre will be a new building of up to 5 thousand square meters that will be constructed in stages. The first stage is expected to cost almost a billion Icelandic króna. Construction will begin soon and projections assume that the first stage will be ready in early 2019. The data centre will be the main IT site of Reiknistofa bankanna (RB) and will serve the company's demanding customers who place great importance on operational and data security.

#### **Presentation on March 1st 2018:**

- An open management presentation meeting of the Consolidated Financial statement will take place on Wednesday March 1st 2018. The presentation will take place in Vodafone's 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](http://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/uppgjorskynning/>

#### **Financial Calendar 2018:**

✓ Annual General Meeting 2018	March 22nd 2018
✓ Q1 Results 2018	May 9th 2018
✓ Q2 Results 2018	August 22nd 2018
✓ Q3 Results 2018	November 7th 2018
✓ Q4 Results and 2018 Consolidated Financial Statements 2018	February 27th 2019
✓ Annual General Meeting 2019	March 21st 2019

#### **Further information:**

- ✓ Guðfinnur Sigurvinsson, director of communications at Fjarskipti hf., will take questions at [fjarfestatengsl@vodafone.is](mailto:fjarfestatengsl@vodafone.is) or by phone at +354-669-9330.