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## Fjarskipti hf. - Q4 2017 Results

### Investor Presentation - 1 March 2017

Stefán Sigurðsson, CEO

Hrönn Sveinsdóttir, CFO

Þorvarður Sveinsson, Managing Director Enterprise and Development

# Key Financial Results Q4 2017

**Revenue**  
**4,304m**

25% increase from 2016

**Net Profit**  
**356m**

110% increase from 2016

**482m adj.\***

184% increase from 2016

**EBITDA**  
**803m**

16% increase from 2016  
18.7% EBITDA %

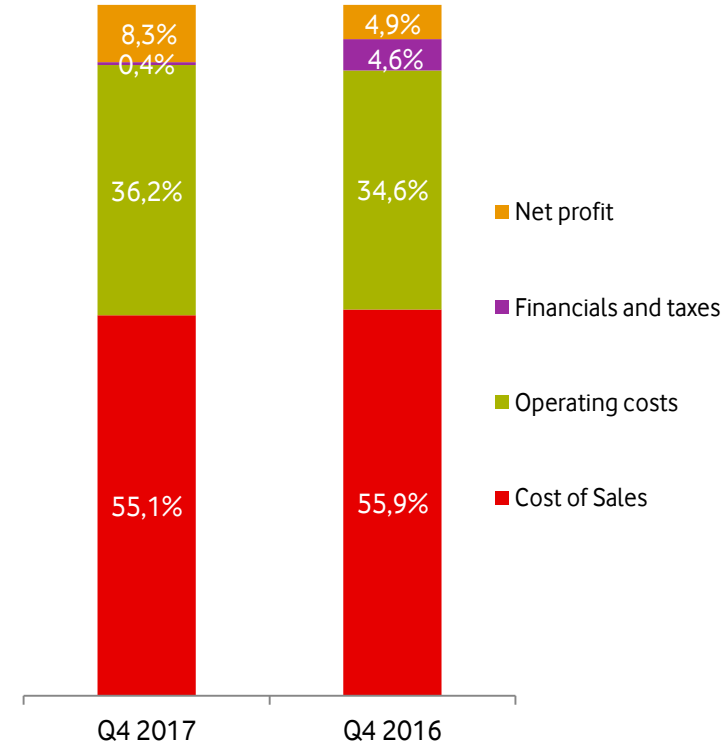
**EBITDA adj.\***  
**961m**

38% increase from 2016  
22.3% EBITDA %



# Q4 Highlights

ISK m	Q4 2017	Q4 2016	Change	% change
Revenue	4,304	3,450	854	25%
Cost of Sales	2,370	1,930	440	23%
Gross Profit	1,934	1,520	414	27%
Operating costs	1,560	1,193	367	31%
EBITDA	803	694	109	16%
EBIT	374	327	47	14%
Net Financials	109	90	19	21%
Net Profit	356	170	186	110%
<hr/>				
<i>Gross Margin (%)</i>	<i>44.9%</i>	<i>44.1%</i>		
<i>EBITDA %</i>	<i>18.7%</i>	<i>20.1%</i>		
<i>EBIT %</i>	<i>8.7%</i>	<i>9.5%</i>		



# Q4 Highlights

Adjusted for one-off costs\* in 2017 and 2016

	Q4 2017	Q4 2016	Change	% change	Q4 '17 adj.	Q4 '16 adj.	Change	% change
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%
<b>EBITDA</b>	<b>803</b>	<b>694</b>	<b>109</b>	<b>16%</b>	<b>961</b>	<b>723</b>	<b>238</b>	<b>33%</b>
<b>EBIT</b>	<b>374</b>	<b>327</b>	<b>47</b>	<b>14%</b>	<b>532</b>	<b>356</b>	<b>176</b>	<b>50%</b>
Net Financials	109	90	19	21%	109	90	19	21%
<b>Net Profit</b>	<b>356</b>	<b>170</b>	<b>186</b>	<b>110%</b>	<b>482</b>	<b>193</b>	<b>289</b>	<b>150%</b>
<hr/>								
<i>Gross Margin (%)</i>	44.9%	44.1%			44.9%	44.1%		
<b><i>EBITDA %</i></b>	<b>18.7%</b>	<b>20.1%</b>			<b>22.3%</b>	<b>21.0%</b>		
<b><i>EBIT %</i></b>	<b>8.7%</b>	<b>9.5%</b>			<b>12.4%</b>	<b>10.3%</b>		

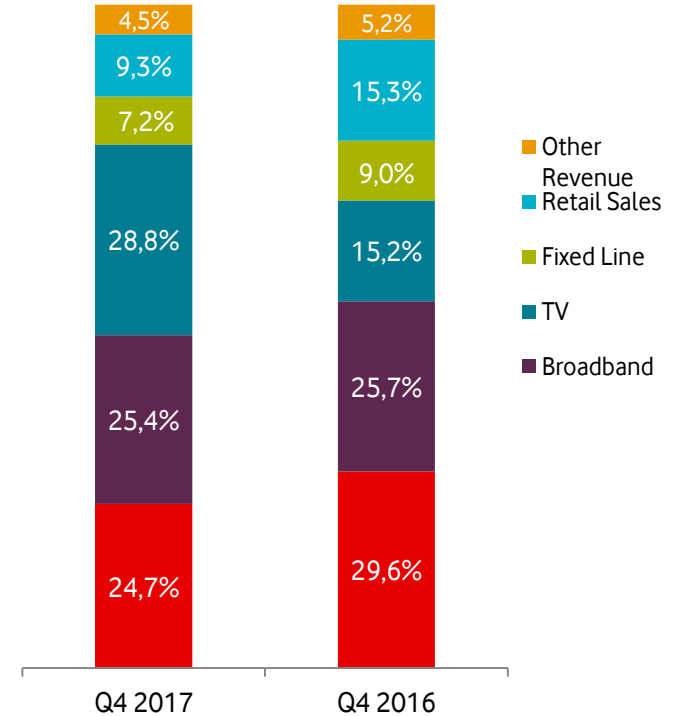
\*One-off costs in Q4 2017 amounted to ISK 158m and amounted to ISK 29m in Q4 2016



# Revenue Growth in Broadband and TV

ISK m	Q4 2017	Q4 2016	Chg.	% chg.
GSM	1,065	1,021	44	4%
Broadband	1,093	886	207	23%
TV	1,239	524	715	137%
Fixed Line	312	311	1	0%
Retail Sales	402	527	-125	-24%
Other Revenue	193	181	12	7%
<b>Total Revenue</b>	<b>4,304</b>	<b>3,450</b>	<b>854</b>	<b>25%</b>

See explanation of revenue categories on the final page



# Revenue development with and without the purchased operations

	Q4				Q4 without the acquired			
	Q4 2017	Q4 2016	Change	% Change	Q4 2017	Q4 2016	Change	% Change
GSM	1,065	1,021	44	4%	1,026	1,021	5	0%
Broadband	1,093	886	207	23%	1,048	886	161	18%
TV	1,239	524	715	137%	536	524	13	2%
Fixed line	312	311	1	0%	290	311	-21	-7%
Retail sales	402	527	-125	-24%	402	527	-125	-24%
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>



# Key Financial Results 2017

**Revenue**  
**14,268m**

4% increase from 2016

**Net Profit**  
**1,086m**

8% increase from 2016

**1,247m adj.\***

21% increase from 2016

**EBITDA**  
**3,137m**

3% increase from 2016  
22.0% EBITDA %

**EBITDA adj.\***  
**3,338m**

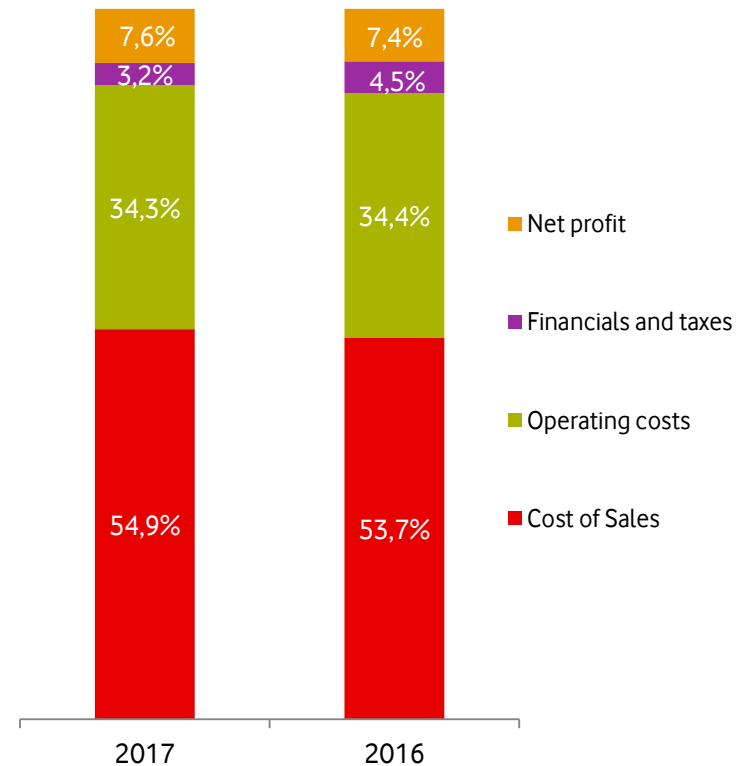
9% increase from 2016  
23.4% EBITDA %



# 2017 Highlights

ISK m	2017	2016	Change	% change
Revenue	14,268	13,655	613	4%
Cost of Sales	7,829	7,332	497	7%
Gross Profit	6,439	6,323	116	2%
Operating Costs	4,889	4,691	198	4%
EBITDA	3,137	3,040	97	3%
EBIT	1,551	1,632	-82	-5%
Net Financials	374	352	22	6%
Net Profit	1,086	1,007	79	8%

<i>Gross Margin (%)</i>	<i>45.1%</i>	<i>46.3%</i>
<i>EBITDA %</i>	<i>22.0%</i>	<i>22.3%</i>
<i>EBIT %</i>	<i>10.9%</i>	<i>12.0%</i>





# 2017 Highlights

Adjusted for one-off costs\* in 2017 and 2016

	2017	2016	Change	% change	2017 adj.	2016 adj.	Change	% change	
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%	
<b>EBITDA</b>	<b>3,137</b>	<b>3,040</b>	<b>97</b>	<b>3%</b>	<b>3,338</b>	<b>3,073</b>	<b>265</b>	<b>9%</b>	
<b>EBIT</b>	<b>1,550</b>	<b>1,632</b>	<b>-82</b>	<b>-5%</b>	<b>1,751</b>	<b>1,665</b>	<b>86</b>	<b>5%</b>	
Net Financials	374	352	22	6%	374	352	22	6%	
<b>Net Profit</b>	<b>1,086</b>	<b>1,007</b>	<b>79</b>	<b>8%</b>	<b>1,247</b>	<b>1,034</b>	<b>213</b>	<b>21%</b>	
<hr/>									
<i>Gross Margin (%)</i>	<i>45.1%</i>	<i>46.3%</i>			<i>45.1%</i>	<i>46.3%</i>			
<i>EBITDA %</i>	<i>22.0%</i>	<i>22.3%</i>			<i>23.4%</i>	<i>22.5%</i>			
<i>EBIT %</i>	<i>10.9%</i>	<i>12.0%</i>			<i>12.3%</i>	<i>12.2%</i>			

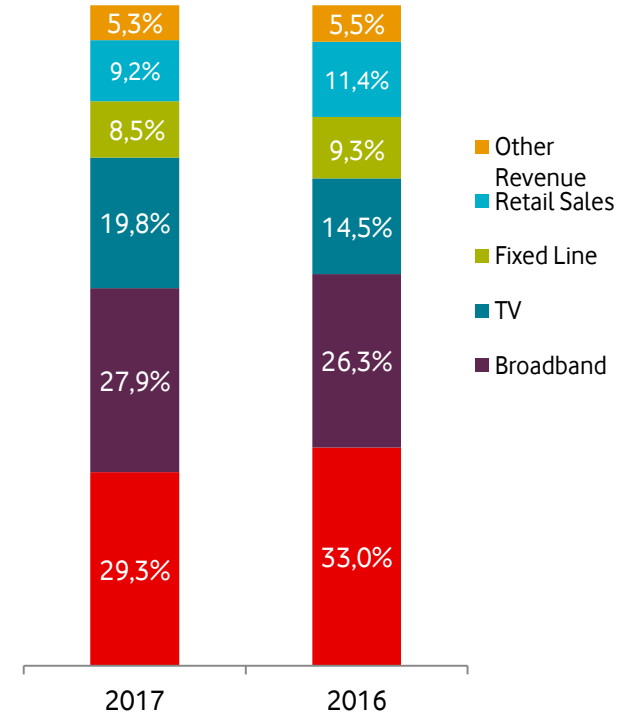
\*One-off costs in 2017 amounted to ISK 201m and amounted to ISK 33m in 2016



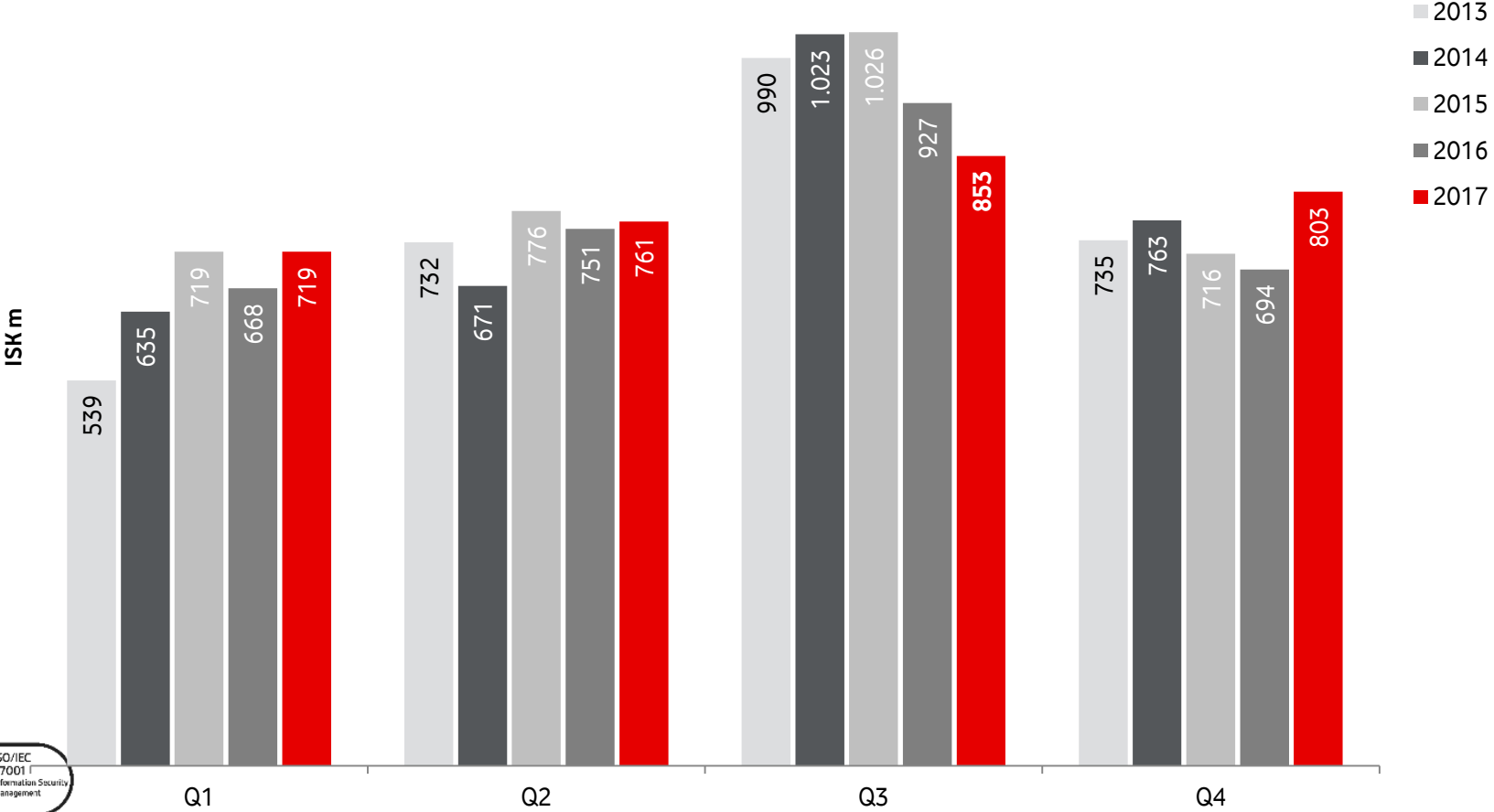
# Revenue Growth in Broadband and TV

ISK m	2017	2016	Breyt.	% breyt.
GSM	4,180	4,511	-331	-7%
Broadband	3,975	3,584	391	11%
TV	2,824	1,980	844	43%
Fixed Line	1,213	1,271	-58	-5%
Retail Sales	1,320	1,554	-234	-15%
Other Revenue	757	755	2	0%
<b>Total Revenue</b>	<b>14,268</b>	<b>13,654</b>	<b>613</b>	<b>4%</b>

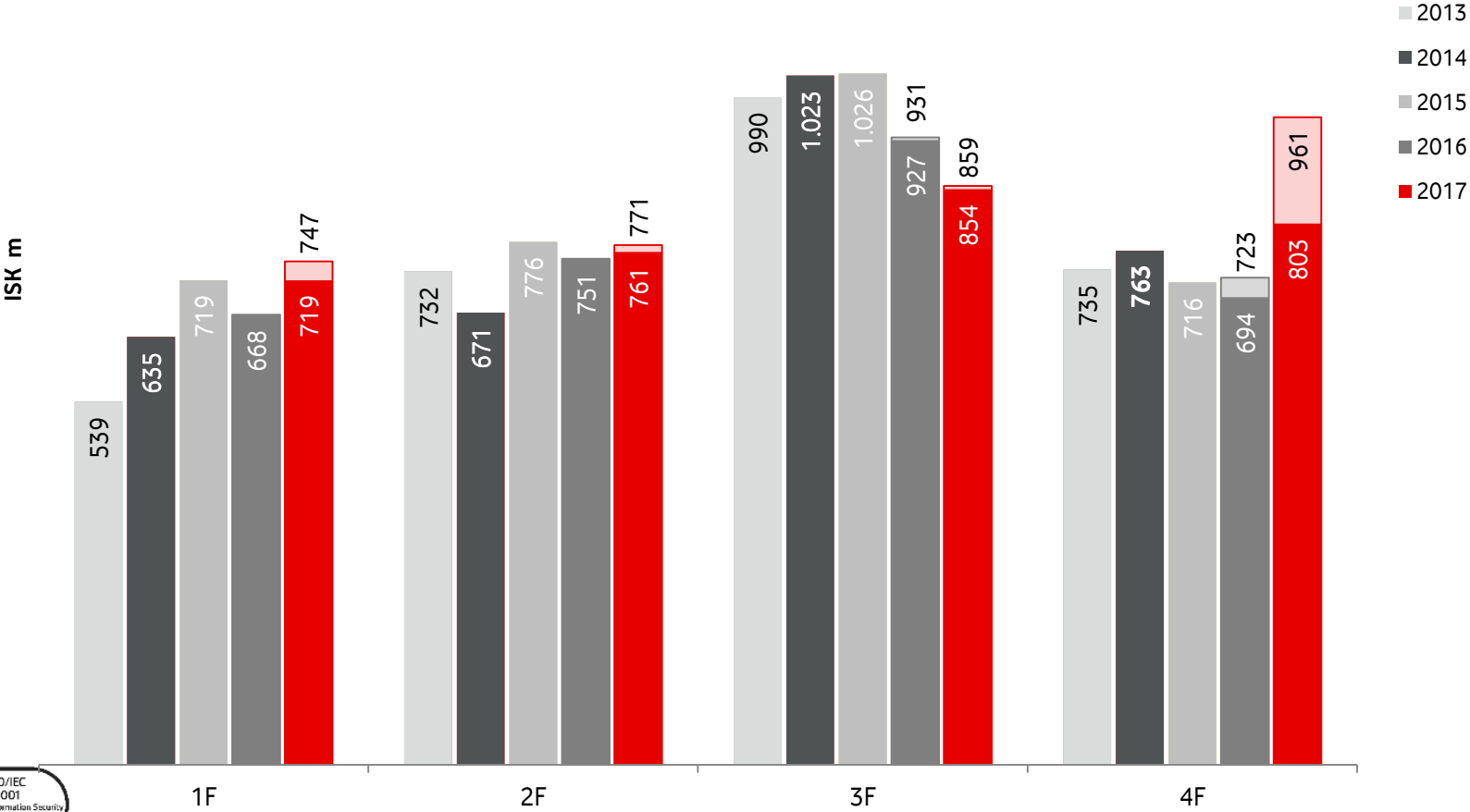
See explanation of revenue categories on the final page



# EBITDA quarterly development



# EBITDA quarterly development adjusted for one-time costs



# Balance sheet 31.12.2017

effect of acquisition

	31.12.17	31.12.16	Change	%	Effect of acquisition
Operational assets	4,902	4,478	424	9%	→ 407 Acquired fixed operational assets
Intangible assets	15,485	7,228	8,257	114%	→ 8,172 Acquired goodwill and other intangible assets
Shares in other companies	16	9	7	78%	→ 5 Acquired shares in other companies
Fixed assets	20,403	11,715	8,688	74%	
Other current assets	4,656	2,603	2,053	79%	→ 1,263 Acquired program inventory
Cash and cash equivalents	317	368	-51	-14%	
Current assets	4,973	2,971	2,002	67%	
<b>Total assets</b>	<b>25,376</b>	<b>14,686</b>	<b>10,690</b>	<b>73%</b>	



# Balance sheet 31.12.2017

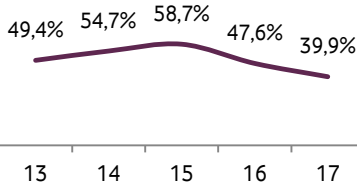
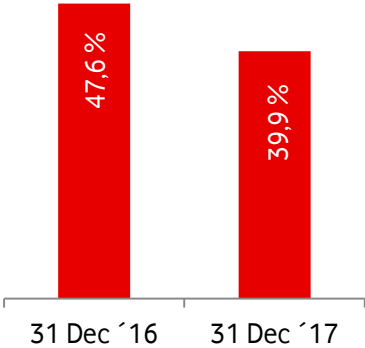
effect of acquisition

	31.12.17	31.12.16	Change	%	Effect of acquisition
Equity	10,131	6,987	3,144	45%	→ 2,111 Increase in share capital due to acquisition
Interest bearing debt	10,732	5,284	5,448	103%	→ 6,071 Increase in interest bearing debt due to acquisition
Deferred tax liabilities	193	103	90	87%	
Non-current liabilities	10,925	5,387	5,538	103%	
Interest bearing debt	618	431	187	43%	
Other current liabilities	3,702	1,881	1,821	97%	→ 1,543 Acquired accounts payables and other liabilities
Current liabilities	4,320	2,312	2,008	87%	
<b>Total equity and liabilities</b>	<b>25,376</b>	<b>14,686</b>	<b>10,690</b>	<b>73%</b>	
<i>Interest bearing debt</i>	<i>11,350</i>	<i>5,715</i>			
<i>Net interest bearing debt</i>	<i>11,033</i>	<i>5,347</i>			
<i>Equity ratio</i>	<i>39.9%</i>	<i>47.6%</i>			

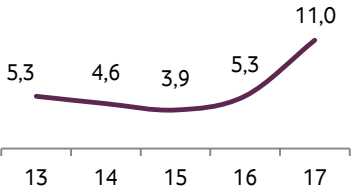
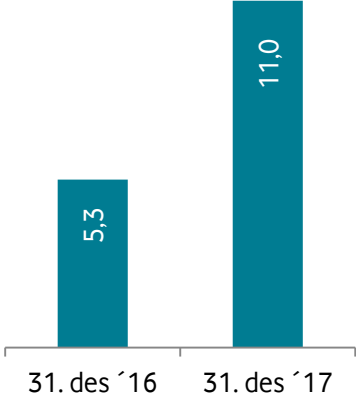


# Balance Sheet

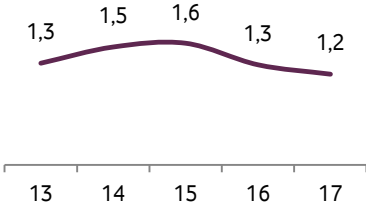
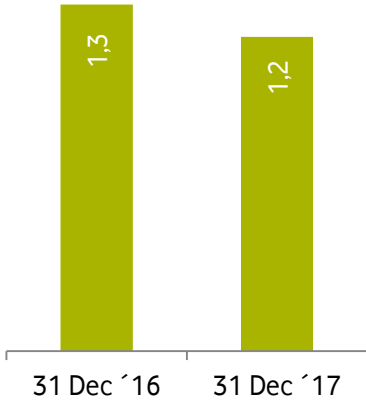
### Equity Ratio



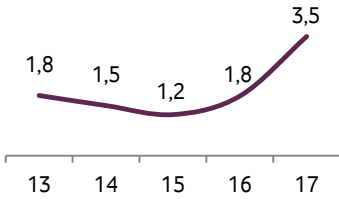
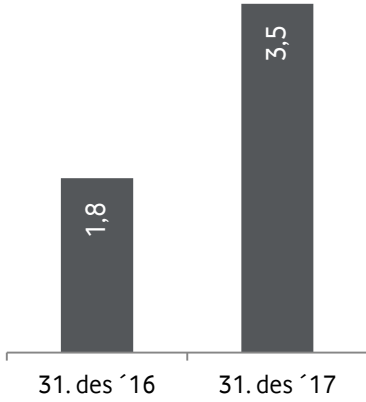
### Net Interest Bearing Debt



### Current Ratio



### Net Debt/EBITDA



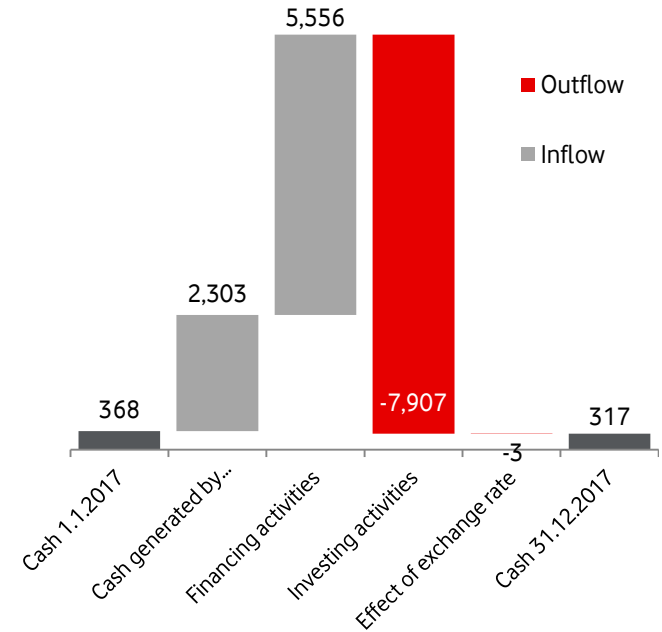
\* Net Debt/EBITDA is calculated from the consolidated net interest bearing debt at year end 2017 and EBITDA of 2017 which had only one month of the merged company operations.



# 2017 Cash Flow

ISK m	2017	2016	Change	% chg.
Cash generated by operations	2,303	3,028	-725	-24%
Investing activities	-7,907	-1,539	-6,368	414%
Financing activities	5,556	-1,536	7,092	-462%
Change in cash	-48	-47	-1	2%
Effect of exchange rate	-3	-5	2	-40%
Cash at beginning of period	368	420	-52	-12%
Cash at the end of period	317	368	-51	-14%
Free Cash Flow	958	1,936	-978	-51%

## 2017 Cash Flow changes





# The acquisition

## The purchased assets and operations

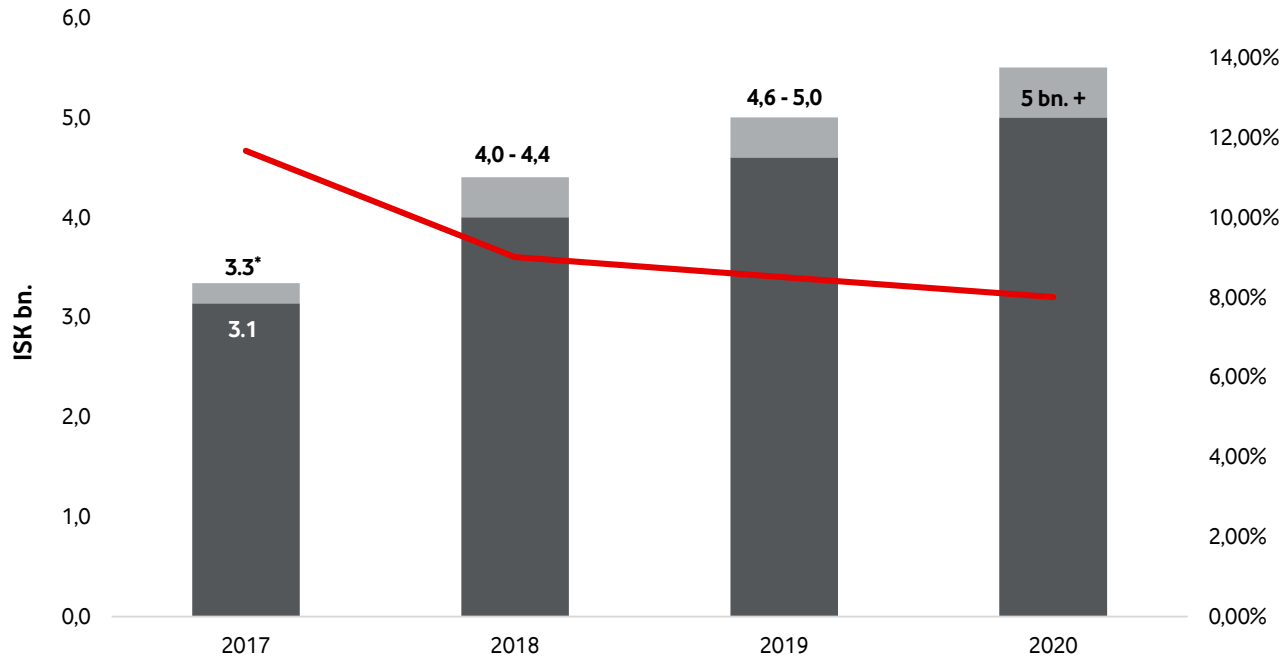
- Fjarskipti's acquisition of 365 media; TV, Radio, Online media and Telecommunications, assets and operation were purchased.
- Acquired assets and liabilities at fair value of ISK 1.9 bn.
  - Program inventory of ISK 1.3bn
  - Fixed operational assets of ISK 0.4bn
  - Intangible assets of ISK 1.8bn
  - Current liabilities of ISK 1,6bn
- Goodwill from the acquisition amounted to ISK 6.4bn.
- Negotiated price was:
  - 32.4m shares in Fjarskipti hf. at ISK 52.5 per share
  - ISK 1,575m with cash
  - Takeover of interest bearing debt of ISK 4,600m.
- The calculated accounting purchase price, based on the market value of the shares on the acquisition date and the cost of repayment of loans is amounted to ISK 8,304m in accordance with the annual statement.

## The merged company

- Turnover of the merged company is estimated at ISK 22bn and EBITDA at ISK 5 bn when synergies are fully realized in 12-18 months from the merger.
- It is estimated that the CAPEX ratio will decrease from approximately 11% to 8% following the integration
- Interest bearing debt increased by ISK 6.0bn
- Equity ratio of the merged company was 39.9% after the purchase which is in line with internal goals.
- At year-end 2017 the company employed 571 FTE's



# Financial guidance for the merged company



Management estimates that EBITDA should range between ISK 4,0– 4,4 bn. in 2018. EBITDA in 2020 is expected to range above ISK 5,0 bn. Capex ratio is estimated at 8-10% in 2018 due to intergration costs, i.e. housing and IT. It is expected that the capex ratio will decrease to around 8% when integrated.





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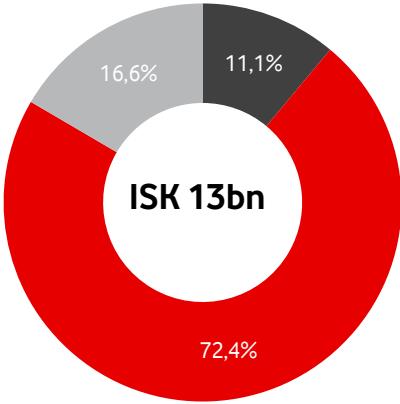


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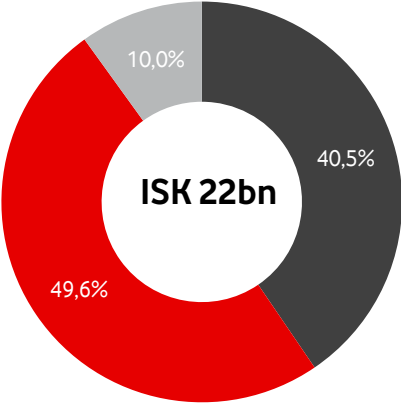
# Broader income base following purchase

### Income before merger



■ Media ■ Telco ■ Retail and other revenue

### Income of the merged company



■ Media ■ Telco ■ Retail and other revenue



# A broad and strong merged company

- Merged company has monthly subscriptions with over 100 thousand clients
- 63 thousand TV subscriptions each month
- 38% share in broadband according to latest PTA figures
- 31% share in mobile according to latest PTA figures
- Extensive TV distribution network around Iceland

**HBO**

**2 MARAÞON**  
**NOW**

**Vodafone**  
**PLAY**



# Diverse and important media activities

- Channel 2 news agency (Stöð 2) has played an important role in society for decades.
- A leading radio platform
  - Bylgjan is the radio channel with the highest ratings in Iceland and is still growing
  - FM957 and X-ið have a strong position in their segment
- Vísir – won a prize being the best online content and news provider in 2017 with 200 thousand daily visits
- Key player in production and purchase of Icelandic TV productions

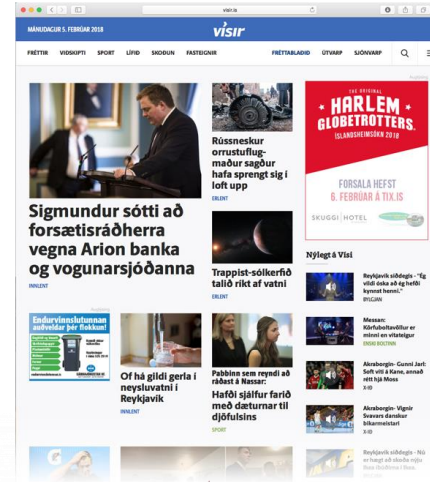
**Fósturbörn**

**STEFU  
STÓRN**



Efnis- og fréttaveita ársins

2017



**ÍSLAND Í  
DAG**



# Leading sports media platform

- Extensive line up of sports rights
- Strongest sports production unit in Iceland
- New three year contract with UEFA Champions League, UEFA Europa League and La Liga
- The content rights for the UEFA Nations League starting in 2018 and the Euro 2020



# Integration is going as planned already with numerous milestones

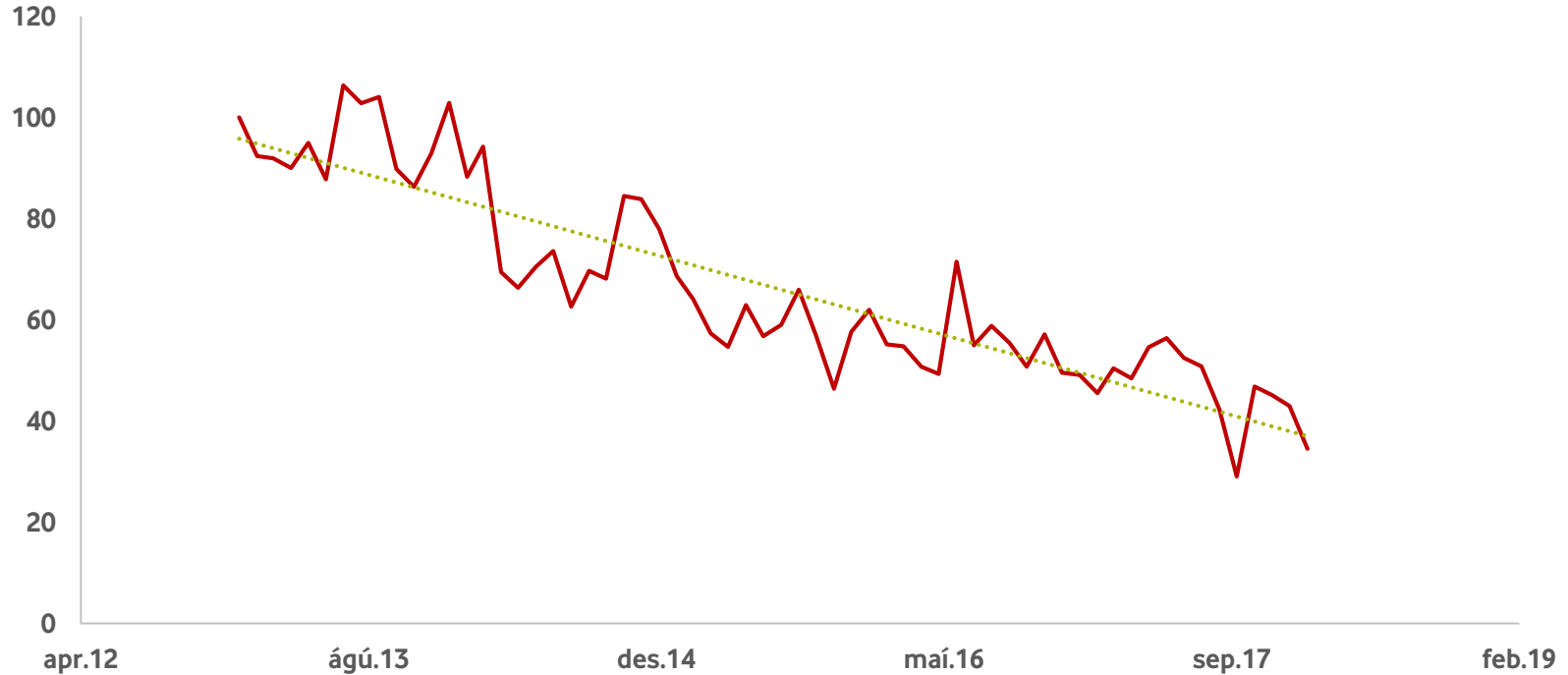
1. Positive sentiment towards the merger among employees and clients
2. Financial department fully merged with the first consolidated accounts published
3. The billing of the acquired entity has been taken over and merged
4. Extensive work is underway to integrate internal systems and processes
5. Service centers have been merged and service integration is well underway
6. Technology departments are merged
7. Separation of news desks with Frettabladid and a new news director hired
8. Contracts renewed for important sport rights
9. Implementation of competitive authorities conditions are in process
10. Future design and organization of housing will be announced soon – merging the operation at our HQ at Sudurlandsbraut





# Opportunity for digital transformation on a larger platform

Vodafone service call index

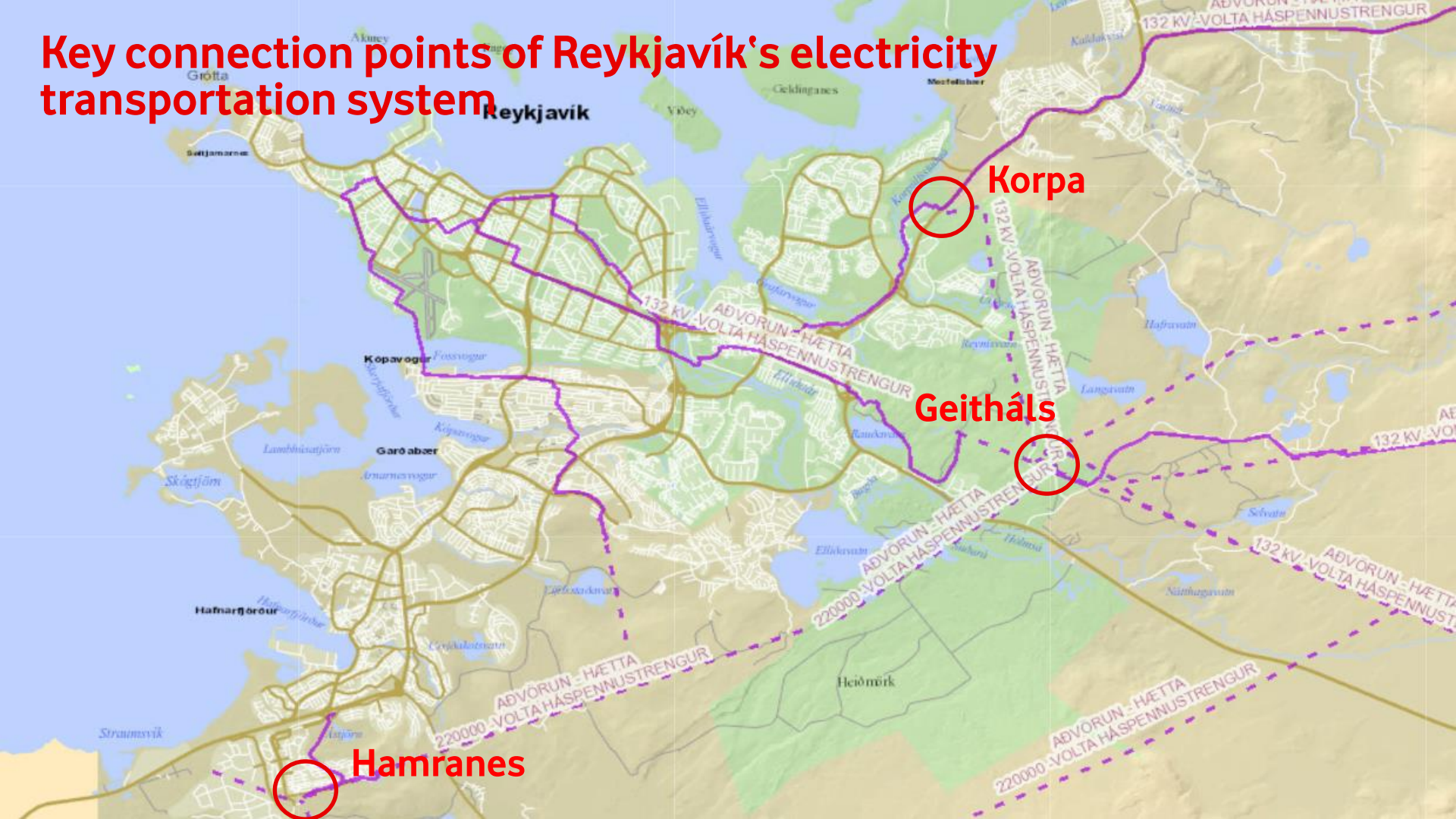


# Vodafone, Opin Kerfi, RB and Korputorg build a high-tech data center

- The Data Centre is designed to host RB, Iceland's service center for the financial market
  - Phase one is 1.000 sq. meter building hosting 240 computer racks
  - Opportunity to offer Icelandic and international customers tier III hosting facility in Reykjavík
  - The data center will be used to host part of Vodafone's network core
- First scalable data center to be built in Reykjavík
  - Good infrastructure in place at Korputorg
  - The data center is close to key connection point in the Reykjavík electric transmission network
  - Good fibre cable infrastructure in place



# Key connection points of Reykjavík's electricity transportation system

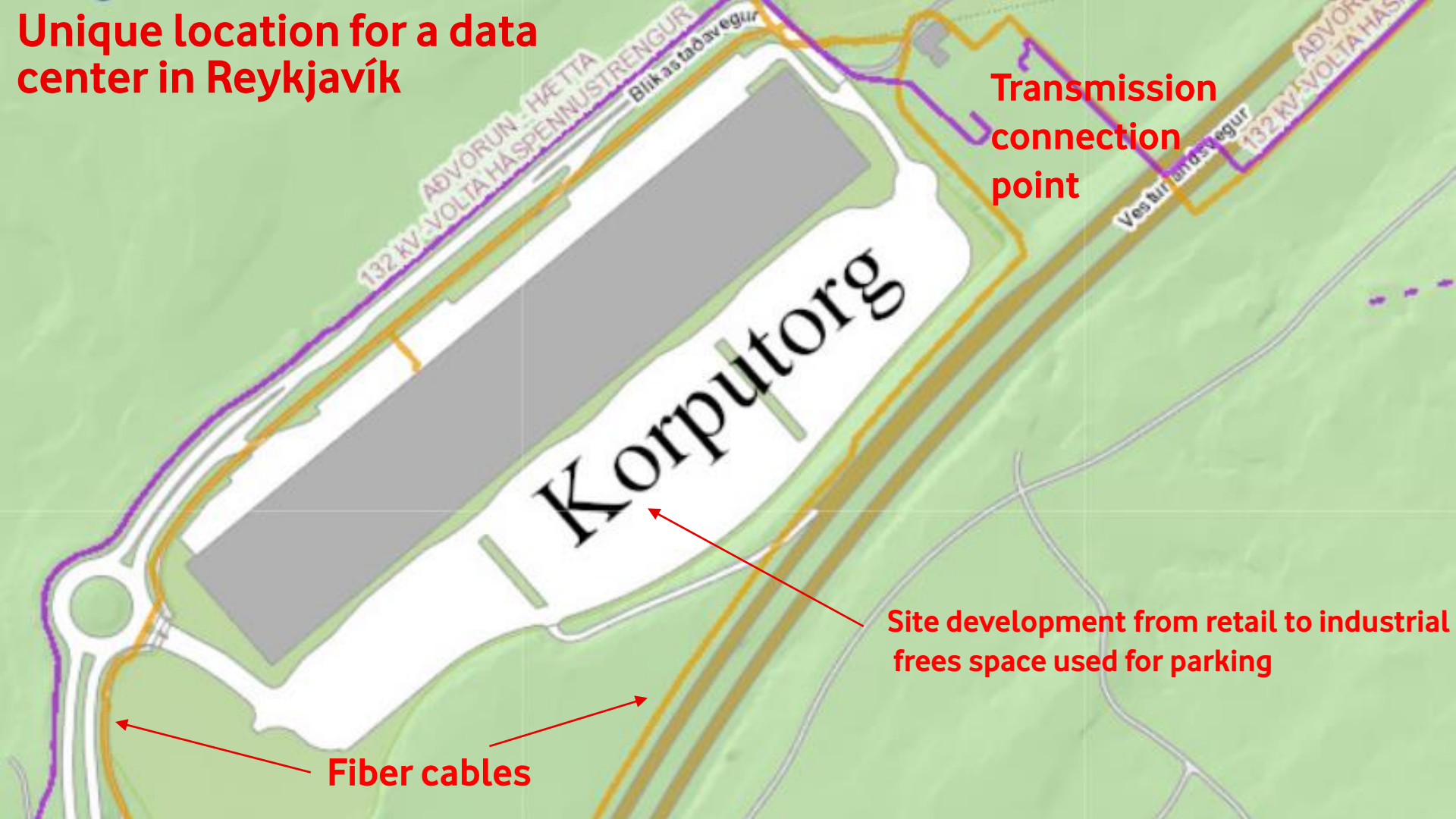


**Korpa**

**Geitháls**

**Hamranes**

# Unique location for a data center in Reykjavík



Transmission connection point

Site development from retail to industrial frees space used for parking

Fiber cables

Korputorg



# Broadening the enterprise product portfolio

- Opportunities to broaden Vodafone' service portfolio for domestic customers
  - Colocation, private cloud and public cloud services, dependent on customers needs
  - Backup services
  - Free cooling and sustainable power
- Further opportunities to leverage towards international clients
  - Iceland's benefits as a good data center location are well known in Iceland, but less known internationally
  - Vodafone believes in the opportunity of using international sales network to build business in the data center





# Explanation of revenue categories

- **GSM** – Revenue for use of cell phones, including data transfer with in the mobile network, subscription revenue from individuals, prepaid sim cards, roaming revenue from travelers, interconnection revenues etc.
- **Broadband** – Revenue from internet service in fixed-line networks, including fiber optic cables, xDSL service and other data connections.
- **Media** – Revenue from the operation of broadcast media, TV subscriptions, advertisement, distribution systems, set-top boxes, TVOD, SVOD and PPV.
- **Fixed line** – Revenue from home phone usage and corporate fixed line usage, interconnection revenue from fixed line.
- **Retail sale** – Revenue from sale of telecommunications equipment and accessories.
- **Other revenue** – Service revenues and rental of terminal equipment



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