Fast Search & Transfer

Sell
(down from Buy)
Price NOK 17.22
Target 13 (22)

Maybe a bit too fast; down to Sell

Continued weak cash flow, high DSO, lack of growth in deferred revenues and restatements indicate aggressive accounting and a strong chance of new charges in Q406 or in relation to the FY06 accounts. We downgrade to Sell (Buy) and lower our target to NOK 13 (NOK 22)

We find accounts receivable abnormally high compared to revenues and think an additional writedown may be implemented going forward. There could also be writedowns of associated companies and capitalised R&D.

We are concerned that Fast's business comprises consultancy revenues to a greater extent than software license sales. This is strengthened by the aggressive hiring of employees, use of external consultants and lack of margin expansion. A large consultancy component in revenues limits margin potential.

Fast builds accounts receivable, reports weak cash flow and books contracts announced several days into next quarter. Lack of deferred revenue growth could also indicate aggressive revenue recognition.

The technology remains strong and the market is growing. We still believe (along with Gartner Group) that Fast has one of the leading technologies in a growing market.

We have lowered our target from NOK 22 to NOK 13 per share based on our DCF valuation. Primarily lower long-term margin expectations and higher beta are driving the changes.

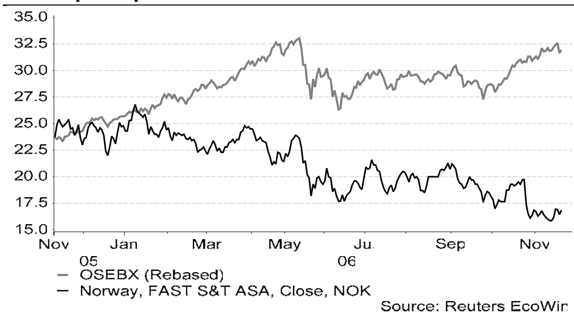
	Sales (USDm)	EBITDA (USDm)	PTP (adj.)	EV / sales	EPS (adj.)	EV / EBITDA	P / E (adj.)	FCF yield (%)	Yield (%)
2004	64	15	9	7.04	0.0	29.8	86.4	-0.8%	0.0
2005	100	16	7	8.71	0.0	55.2	148.4	-1.1%	0.0
2006E	161	18	9	4.21	0.0	37.5	242.4	-3.1%	0.0
2007E	239	40	23	2.97	0.0	17.8	63.5	-0.6%	0.0
2008E	343	52	34	2.07	0.1	13.6	43.7	0.7%	0.0

Share data

Market cap (NOKm)	6,569
Number of shares (m)	383.0
Bloomberg code	FAST NO Equity
Reuter code	FAST.OL
Average volume	6,440,570

Performance	1M	3M	12M
Abs. perf. (%)	-11	-14	-30
Rel. to OSEBX	-15	-23	-63

Share price performance



Source: Kaupthing estimates, company data. Share price as of 22 Nov 2006.

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Investment summary

We have identified several reasons indicating low quality of earnings for the company:

- The continued high DSO following accelerating accounts receivable…
- …along with lack of growth in the deferred revenues and booking of contracts into following quarter…
- …this suggests aggressive revenue recognition
- We believe there is a good chance Fast will book further charges in Q4 or in relation with annual auditing
- A steep increase in the number of employees and lack of margin expansion indicates higher-than-expected share of consultancy revenues
- We also believe some of the one-offs booked in Q3 should be considered ordinary operational costs…
- …giving an underlying EBIT loss in Q3 in our view
- One also might adjust for capitalised R&D having a 50-80% negative effect on EBITDA for 2005 and 2006
- We have lowered our estimates around 10% and our target from NOK 22 to NOK 13. The main reason is lower long-term margin expansion
- We downgrade to Sell (Buy)

We lower our estimates somewhat…

We have lowered our estimates somewhat due to associated companies adding losses to net finance, as well as increased amortisation following the capitalisation of R&D and the amortisation of NextPage customer contracts. In addition, we have increased OPEX somewhat.

Estimate changes

USDm	Old	New	%
Sales			
2006E	161	161	0.0 %
2007E	239	239	0.0 %
2008E	343	343	0.0 %
EBIT			
2006E	4	4	-1.4 %
2007E	23	21	-7.0 %
2008E	35	32	-8.1 %
EPS			
2006E	0.01	0.01	-4.5 %
2007E	0.05	0.05	-9.4 %
2008E	0.08	0.07	-9.6 %

Source: Kaupthing estimates

…giving us these new estimates…

Our new estimates are presented below. As the company capitalises some of its R&D, we believe the most accurate multiple to use is the EV/EBIT (as the R&D is amortised, effecting EBIT not EBITDA). The pricing of 30x 2007 and 20x 2008 EBIT is not attractive in our view.

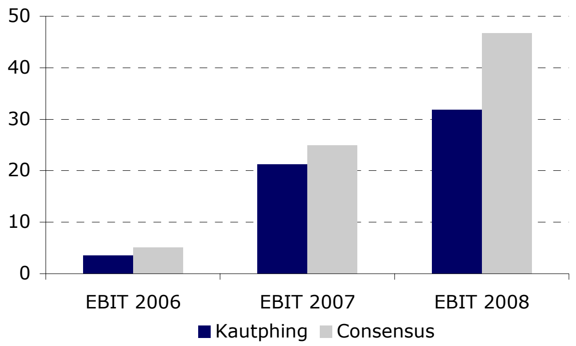
P&L statement

USDm	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06E	2004	2005	2006E	2007E	2008E
Sales	21.3	24.1	26.6	31.1	32.8	38.5	42.5	47.1	63.6	100.2	160.9	239.3	342.7
Cost of goods sold	2.8	3.1	3.7	4.3	4.8	6.1	6.9	7.1	7.7	13.9	25.0	36.5	53.7
R&D	3.7	4.3	4.6	4.3	3.9	5.1	7.9	5.6	11.5	17.1	22.6	30.2	40.4
Sales and Marketing	6.7	7.9	9.3	11.9	12.6	14.1	18.0	20.2	20.2	35.9	64.9	103.4	162.7
General and administrative	2.7	3.0	3.1	3.1	3.0	3.3	9.4	3.4	9.2	11.9	19.0	17.1	20.0
Share-based compansation	1.3	1.4	1.4	1.5	2.7	3.1	2.7	2.8	0.0	5.6	11.3	12.2	13.8
EBITDA	**3.9**	**4.3**	**4.5**	**6.0**	**5.8**	**6.7**	**-2.4**	**8.0**	**15.0**	**15.8**	**18.1**	**39.9**	**52.1**
Depreciation	1.6	1.8	2.1	2.1	2.3	3.5	4.3	4.4	2.0	8.8	14.5	18.7	20.3
EBITA	2.3	2.5	2.4	4.0	3.5	3.2	-6.7	3.6	9.5	0.0	3.5	21.2	31.8
Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.6	0.0	0.0	0.0	0.0
EBIT	**2.3**	**2.5**	**2.4**	**4.0**	**3.5**	**3.2**	**-6.7**	**3.6**	**3.9**	**7.0**	**3.5**	**21.2**	**31.8**
Pre-tax	2.6	2.6	2.5	4.4	4.8	4.8	-5.2	5.1	5.2	7.5	9.4	23.2	33.7
Tax	-1.2	-0.8	-0.7	2.2	-2.2	-2.3	0.8	-1.5	-1.1	0.0	-5.3	-7.0	-10.1
Discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.0	0.0	0.0	0.0	0.0
Net income	**1.4**	**1.8**	**1.8**	**6.5**	**2.5**	**2.5**	**-4.5**	**3.5**	**3.1**	**7.4**	**4.1**	**16.2**	**23.6**
EPS	**0.01**	**0.01**	**0.01**	**0.02**	**0.01**	**0.01**	**-0.01**	**0.01**	**0.01**	**0.04**	**0.01**	**0.05**	**0.07**
Direct sales	10.1	11.8	12.6	15.1	15.1	20.4	23.6	24.2	33.5	49.6	83.2	115.4	159.5
Partner	4.9	5.3	6.1	7.6	7.5	6.5	6.8	9.1	13.9	23.9	30.0	46.1	63.8
OEM	2.1	2.7	3.2	3.6	3.9	3.3	3.9	4.3	5.2	11.6	15.4	24.5	33.9
Recurring revenue	4.2	4.3	4.7	4.8	6.2	8.2	8.2	9.5	10.3	18.0	32.1	53.3	85.5
Total	21.3	24.1	26.6	31.1	32.8	38.4	42.5	47.1	62.9	103.1	160.8	239.3	342.7
Sales growth (yoy)	70%	70%	61%	52%	54%	60%	60%	51%	50%	58%	61%	49%	43%
Organic sales growth	52%	54%	53%	52%	54%	60%	60%	51%	43%	50%	61%	49%	43%
Seq. Sales growth	4.2%	13.2%	10.5%	16.9%	5.5%	17.5%	10.3%	10.8%					
Gross margin	87%	87%	86%	86%	85%	84%	84%	85%	88%	86%	84%	85%	84%
EBITDA margin	18.4%	17.8%	17.1%	19.5%	17.6%	17.4%	-5.7%	17.0%	23.6%	15.8%	11.2%	16.7%	15.2%
EBIT margin	10.8%	10.3%	9.2%	12.7%	10.7%	8.3%	-15.9%	7.6%	6.1%	7.0%	2.2%	8.9%	9.3%
Pretax margin	12.2%	10.6%	9.4%	14.0%	14.5%	12.5%	-12.3%	10.8%	8.2%	7.4%	5.8%	9.7%	9.8%
EV/SALES									6.8	6.7	3.9	2.7	1.8
EV/EBITDA									28.8	42.4	34.5	15.9	12.1
EV/EBIT									111.4	95.7	175.6	29.9	19.8

Source: Kaupthing estimates and company data

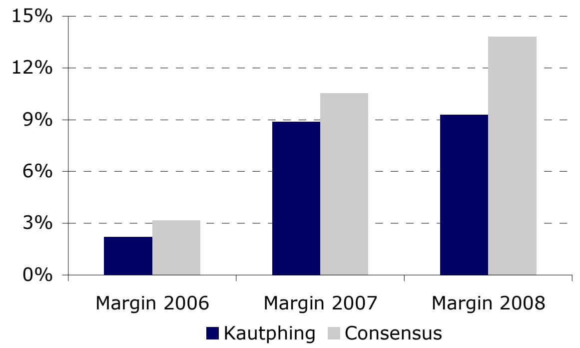
Kaupthing estimates are considerably below consensus on EBIT level (no extensive deviation on revenues), particularly in 2008 (Kaupthing 32% below consensus). We believe consultancy revenues are higher than the market expects and EBIT needs to come down.

EBIT estimate for Kaupthing vs. consensus



Source: Kaupthing estimates and company data

EBIT margin estimate for Kaupthing vs. consensus



Source: Kaupthing estimates and company data

In 2005, Fast capitalised R&D (software development) worth USD 9m, up from USD 5.6m in 2004, a 60% growth. Fast does not report capitalised R&D on a quarterly basis, but by assuming similar growth as OPEX YTD (54% adjusting for USD 9.7m in Q3), we expect the company to have capitalised around USD 14m by year-end. This increase will temporarily also increase EBIT margin, but as the capitalised R&D is amortised, cost will be catching up, putting further pressure on margins going forward. By adjusting for this, EBITDA for last year is adjusted down 57% from USD 15.8m to USD 6.8m. For 2006, (by using the USD 14m calculated above), adjusted EBITDA is as much as 77% lower than the reported figures. The effect on EBIT would not be quite that large as amortisation also would be lower. We have illustrated below the P&L if no costs were capitalised.

Adjusted figures for 2005-06

	Reported 2006	Adjusted 2006	Reported 2005	Adjusted 2005
Total Net Revenues	**160.9**	**160.9**	**100.2**	**100.2**
Cost of revenues-search services	25.0	25.0	13.9	13.9
Cost of revenues-content services	-	-		
R&D	22.6	36.6	17.1	26.1
Sales and Marketing	64.9	64.9	35.9	35.9
General and administrative	19.0	19.0	12.0	11.9
Share-based compansation				
Share-based compansation IFRS	11.3	11.3	5.6	5.6
Non-recurring charges	-	-		
EBITDA	**18.1**	**4.1**	**15.8**	**6.8**

Source: Kaupthing estimates and company data

Based on a peer group comparison, Fast is no longer cheaper than Autonomy, although the company is growing faster. We believe the difference in EV/EBIT is not enough to defend the differences in growth.

Peer group comparison (local currency)

					EV/Sales			EV/EBITDA			EV/EBIT			CAGR
	Rec	**Price**	**Target**	**MC**	**06E**	**07E**	**08E**	**06E**	**07E**	**08E**	**06E**	**07E**	**08E**	**06-08**
Autonomy	n.r.	523.0		939	6.8	5.7	4.8	23.6	17.5	13.3	26.6	19.2	15.0	14%
Convera	n.r.	4.9		260										
Average - peers					**6.8**	**5.7**	**4.8**	**23.6**	**17.5**	**13.3**	**26.6**	**19.2**	**15.0**	**14%**
Fast (IFRS)	**Sell**	**16.9**	**13**	**6,454**	**4.0**	**2.9**	**2.0**	**35.9**	**17.1**	**13.1**	**183.2**	**32.1**	**21.4**	46%
Fast (consensus)					4.1	2.8	1.9	35.2	15.2	9.3	130.6	26.9	14.1	44%

Source: Kaupthing estimates and company data

...and a large change in valuation...

We have lowered our valuation and target from NOK 22 to NOK 13 in Fast. We have changed the following parameters:

- Increased CAPEX based on higher capitalisation of R&D (NOK 0.5 effect on DCF)
- Beta raised from 1.35 to 1.5 based on higher risk going forward (NOK 1.5)
- Phase II margin lowered from 23% to 15% on the back of expectations of higher consultancy revenues (highest effect on DCF) (NOK 7)

DCF valuation

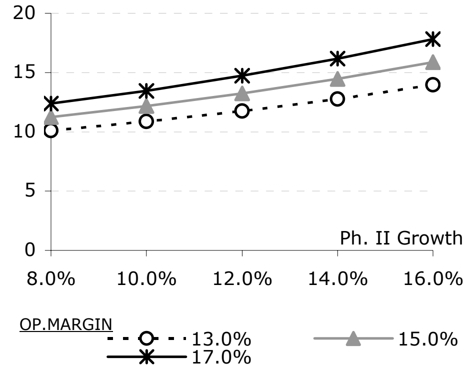
Cash Flow	2003	2004	2005	2006E	2007E	2008E	2009E	Base year:2010
Sales	42	64	100	161	239	343	450	450
EBIT ex GW margin	18%	12%	7%	2%	9%	9%	10%	15%
EBIT Ex GW	8	7	7	4	21	32	44	67
Tax	-2	-2	-2	-1	-6	-9	-12	19
NOPLAT	5	5	5	3	15	23	31	49
NOPLAT growth	0%	-2%	-6%	-49%	499%	50%	37%	12%
GCF	11	13	14	17	34	43	53	
Change in working capital	-13	8	-9	-21	-15	-12	-2	
Capex	44	-10	-60	-61	-32	-26	-26	
Free cash flow	42	10	-56	-64	-12	6	25	
Net present value free cash flow				**-64**	**-11**	**4**	**18**	

Assumptions	Phase II	Phase III	WACC Calculation		Valuation	Total	Per Share
Growth	12.0%	n.m.	Risk free rate	4.5%	Currency		
EBITA margin	15.0%	3.3%	Loan premium	1.0%	Interest b. debt	1	0.0
ROIC	50.0%	WACC	Cost of debt a. tax	4.0%	Cash & cash equiv.	260	4.2
Sales	450		Beta	1.6	NPV cash flow	557	9.0
NOPLAT	49		Market risk	4.0%	2006-09E	-52	-0.8
No. of years phase II	10		Req. return on equity	10.9%	2010-2020	252	4.1
Standard tax rate	28%		Debt, % of total fin.	0.1%	2021-	357	5.8
			WACC	**10.9%**	**Total value**	**816**	**13.2**

Sensitivity Analysis

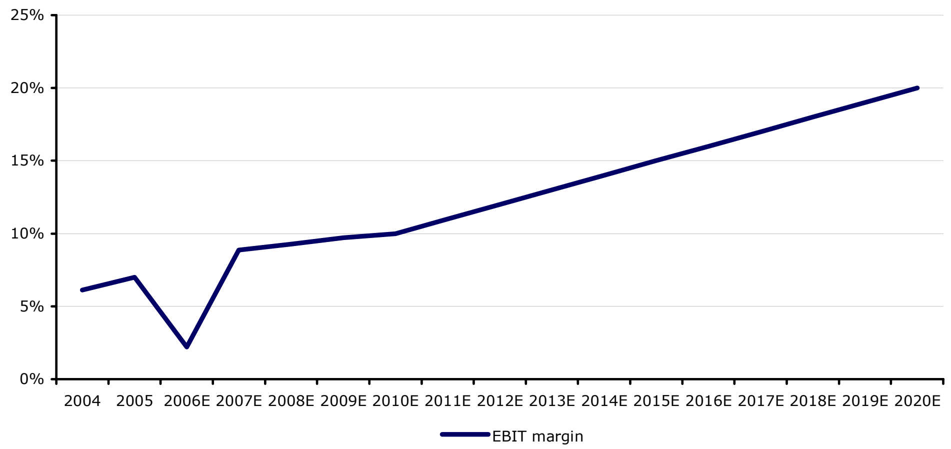
Phase II Growth		Phase II ROIC		EBIT Ex GW margin	
8.0%	11	46.0%	13	13.0%	12
10.0%	12	48.0%	13	14.0%	12
12.0%	13	50.0%	13	15.0%	13
14.0%	14	52.0%	13	16.0%	14
16.0%	16	54.0%	13	17.0%	15

Beta		Risk free rate		Years in phase II	
1.0	18	3.5%	15	4	10
1.7	13	4.0%	14	7	12
1.6	13	4.5%	13	10	13
1.5	14	5.0%	13	13	15
1.4	15	5.5%	12	16	16



Source: Kaupthing estimates and company data

Implied EBIT margin estimates yielding valuation of NOK 13



Source: Kaupthing estimates and company data

…as well as possible Q4 one-offs

The company still has around USD 72m of accounts receivable in its balance sheet. We believe this is a high number compared to revenues (reflected in DSO) and fear further writedowns going forward. In addition, we are uncertain what hides behind the "intangible assets" in balance sheet. This was reported at USD 59.6m in Q3 and by year-end 2005 the split was:

Split – intangible assets

	2004	2005
Goodwill	13.2	11.9
Capitalized software, net	8.7	14.2
Software licenses, net	2.7	3.2
Other intangibles, net	6.6	5.9
Sum	**31.3**	**35.2**

Source: Kaupthing estimates and company data

As mentioned, currently the intangible assets are as high as USD 59.6m, but we are uncertain of mix. We believe Interagon, Fileflow, TSO and Platefood is included in these figures, and believe there is a fair chance the four companies could be written down further, in addition to possible R&D write down.

DSO is increasing further…

The company's average days of sales outstanding (DSO) figures has been weak for some time, but was record high in Q3 at 155 days. The DSO describes the time in days from the company book a sale to cash is received. In Q3, Fast split this measure into customer profiles:

DSO profile

Profile	% of Revenue	DSO range for Licenses
Internet / Media Companies	30-40%	120-360 days
Enterprises	30-40%	45-180 days
OEM	7.5-12.5%	120-360 days
Resellers	20-25%	180-360 days

Source: Company data

We find the high DSO worrisome especially as the company sees no decline in the near term. We are particularly worried with regards to the high OEM (120-360 days) and reseller (180-360 days) figures. It seems odd if a partner should require credit facilities in addition to its customer. Overall, we find the DSO level too high compared with other growing software companies. Based on our peer group below, DSO should be at a 60-80 days level. The high overall DSO also raises questions if the revenue recognition has been too aggressive.

DSO for random high growth software companies

Company	Sector	MCAP (USDm)	FX	CAGR 04-08	DSO last reported	DSO 2005
Salesforce.Com	Software	4,885	USD	53%	57	88
Gameloft SA	Software & Computer Se	383	EUR	51%	111	111
Opsware Inc	Software	962	USD	50%	75	105
Autonomy Corporation Plc	Software & Computer Se	1,764	GBP	50%	101	142
Protect Data AB	Software & Computer Se	571	SEK	46%	113	144
Ansys	Software & Computer Se	1,960	USD	39%	36	44
Nuance Communications Inc.	Software	1,857	USD	38%	78	103
Mamut ASA	Software	103	NOK	35%	23	54
Access	Software & Computer Se	2,502	JPY	35%	67	110
Red Hat	Software & Computer Se	3,227	USD	34%	64	75
Lawson Software Inc	Software & Computer Se	1,535	USD	29%	84	147
Realnetworks Inc	Software	1,806	USD	25%	77	33
Adobe Systems Inc	Software	23,631	USD	20%	43	32
Average					**71**	**91**
Fast Search & Transfer ASA	Software & Computer Se	897	NOK	52%	153	176

Source: Company reports (note that growth for all companies might not be organic)

Fast DSO is actually higher than all other companies in our peer group – based on both last quarter and for 2005.

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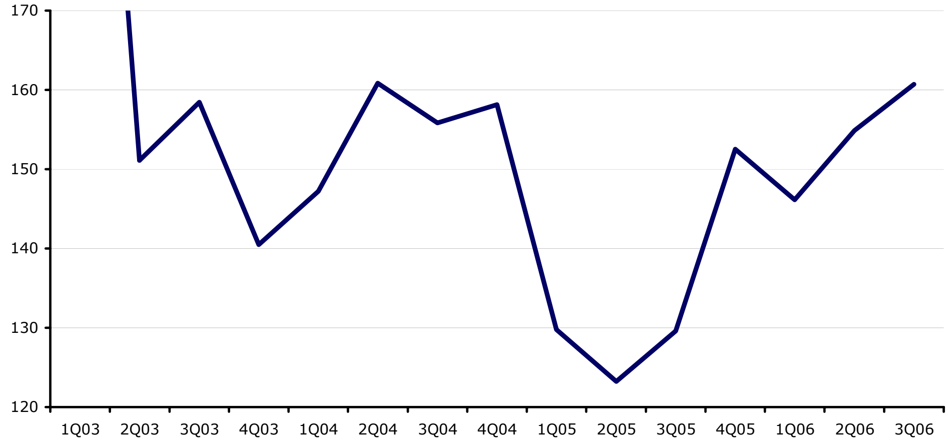
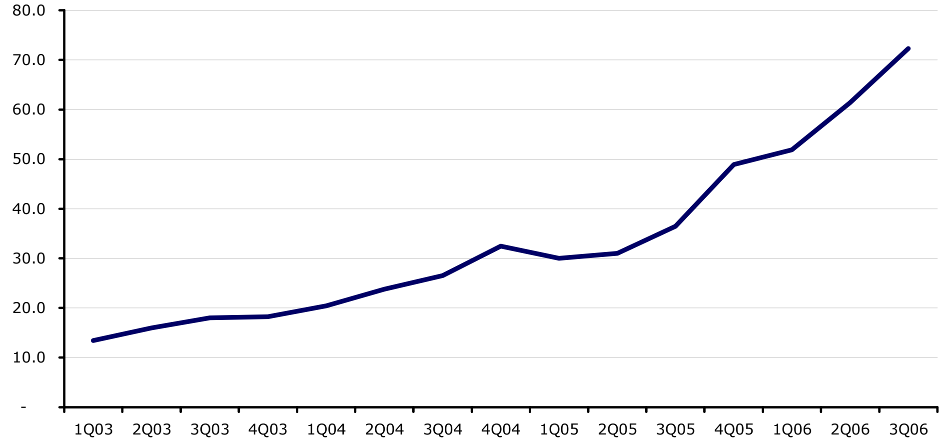
Fast – DSO (six months rolling) - quarterly



Source: Kaupthing estimates and company data

The DSO is closely connected to accounts receivable (AR), where growth in the latter has kept the DSO on such a high level. In Q3, Fast made a provision of USD 3.6m due to bad debt (USD 2.5m in provision and USD 1.1m in actual writedowns). Such a provision should have reduced AR, but it still grew at a record rate. With the high and increasing accounts receivable, risks of more bad debt expenses, higher operational expenses and revenue risk are not negligible. We are also concerned that revenues only increased USD 4m, while AR was up almost USD 15m. Some companies make provisions of debt more than 90 days overdue. We are uncertain of Fast's practises. We also believe the high reported AR per quarter is a function of back-end loaded quarters. Fast even books contracts announced several days into the following quarter, a questionable method in our view.

Accounts receivable – quarterly (USDm)

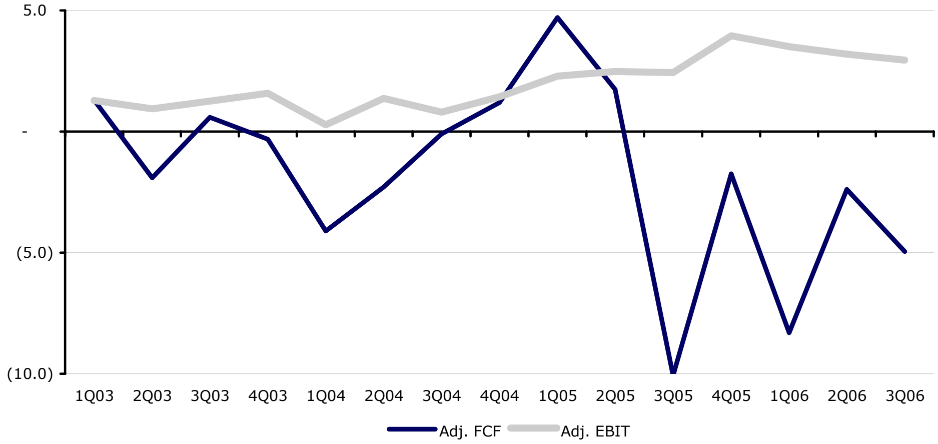


Source: Company data

…putting further pressure on cash flow…

As a result of the high DSO, free cash flow still underperforms EBIT despite the fact that we have not included share-based compensation.

Adjusted free cash flow vs. adjusted EBIT – quarterly (USDm)

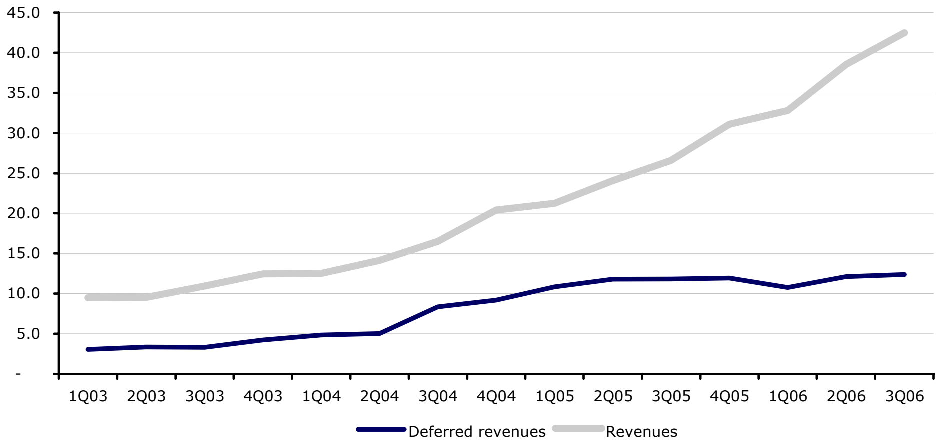


Source: Kaupthing estimates and company data

…and deferred revenues are still not increasing…

Deferred revenues can be described as unearned revenues (invoiced but not recognised in P&L) or a kind of backlog. High and growing deferred revenues are indicators of a healthy business. Software companies often report deferred revenues in their balance sheet (as a liability). Fast has reported quite a flat trend (up 14%) in this measure in the last seven quarters, despite revenues increasing by 100%. We find this development a bit odd. In addition, we find the deferred revenues/revenues ratio at 29% reported last quarter a bit low.

Deferred revenue vs. revenues - quarterly



Source: Company data

We will illustrate how deferred revenues are calculated and how we believe it should develop:

Example of booking of deferred revenues

	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
Contract value	100.00	110.00	121.00	133.10	146.41	161.05	177.16	194.87
License sales	80.00	88.00	96.80	106.48	117.13	128.84	141.72	155.90
Maintenance revenues	0.00	5.00	10.50	16.55	23.21	25.53	28.08	30.89
Total revenues	80.00	93.00	107.30	123.03	140.33	154.37	169.80	186.78
growth					*14%*	*10%*	*10%*	*10%*
Deferred revenues	20.00	15.00	10.00	5.00				
Deferred revenues		22.00	16.50	11.00	5.50			
Deferred revenues			24.20	18.15	12.10	6.05		
Deferred revenues				26.62	19.97	13.31	6.66	
Deferred revenues					29.28	21.96	14.64	7.32
Deferred revenues						32.21	24.16	16.11
Deferred revenues							35.43	26.57
Deferred revenues								38.97
Total deferred rev (bal sheet)	**20.00**	**37.00**	**50.70**	**60.77**	**66.85**	**73.53**	**80.88**	**88.97**
growth					*10%*	*10%*	*10%*	*10%*

Source: Kaupthing research

In this example, we have assumed a 10% Q/Q growth in new contract signings and a 20% maintenance share. When a license worth 100 is signed, 80 are booked immediately while 20 are booked as deferred revenues (in our 80/20 example). In the next quarter, five (20/4 quarters per year = five) are transferred from deferred revenue and booked as revenues (and 15 remain in deferred revenues). This quarter, a license worth 110 (10% growth) is signed having the same effect on deferred revenues as described above. At the end of the day, deferred revenues should grow at the same rate as revenues as well as new license sales.

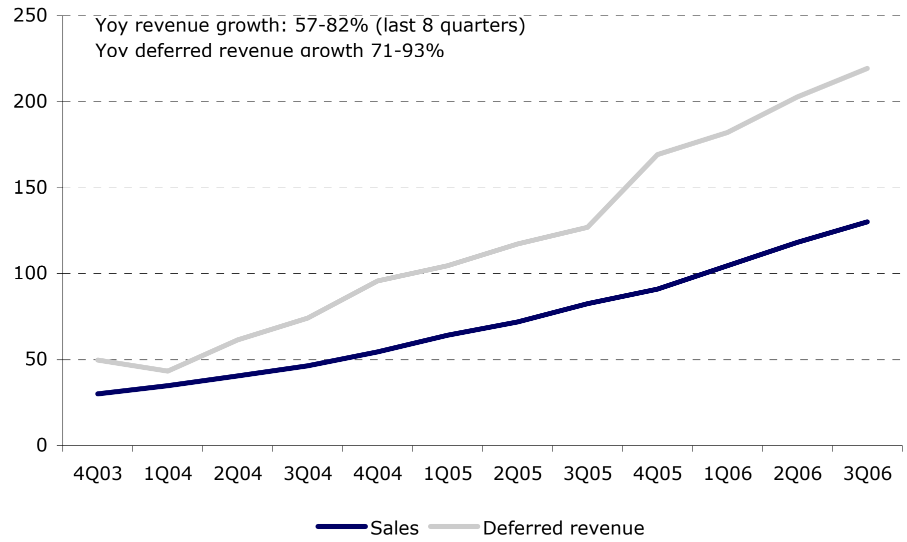
So why does this not apply to Fast?

There are a few possible answers:

- Fast has extensive service (consultancy) revenues. Such revenues will be booked directly at service execution (no effect on deferred revenues). However, pre-invoiced consultancy services should be reflected in deferred revenue. A high share of consultancy would limit longer-term margin potential, in line with management statements lately.
- If Fast in many cases books the entire contract value up-front (100 instead of 80 with reference to our example above), this would not contribute to deferred revenues. However, if consistent (for example at 95/5) over time, deferred revenues should still increase. If the split is in favour of high up-front booking, then the deferred revenues/revenues ratio should be low (as is the case in Fast). This indicates aggressive revenue booking.
- Quarterly invoicing (instead of yearly) could also have an effect on deferred revenues as the revenues might be transferred to deferred revenue and then booked within one quarter (not visible in quarterly figures). However, given consistency, deferred revenues should still grow with at a similar rate as revenues.
- Increasing churn, if an increasing number of clients cancel their relationships with Fast, would decrease the deferred revenue base. Fast states it has no churn, this should indicate a much *higher* growth in deferred revenues, not lower as is the case.
- Lifetime contracts – could have a dilutive effect on deferred revenue growth.

For comparison, here is the equivalent graph for Salesforce.com

Sales and deferred revenues quarterly for Salesforce.com



Source: Kaupthing estimates and company data

...and we do not know what is hiding behind the revenue figure

Fast provides no revenue break-down (except geographic and direct/partner sales). We believe this is highly relevant for the valuation of the company. We have already touched upon the split between license sales and maintenance indicates whether the company recognises revenues aggressively or not. Maybe more important is the split-out of services (consultancy). The reason is that the higher the consultancy component is, the lower the margin potential. Mature software businesses post margins typically of 25-35% on the operating level, while well managed consultancy companies have a 10-15% margin. Currently, Fast is reporting margins below 10% and states that it does not expect any short-term boost. The company's aggressive hiring of employees in the last few quarter could be a bit worrisome in this respect.

We expect a more extensive revenue break-down reporting starting in Q1 next year (maybe as soon as Q4 this year).

In Q3, Fast booked USD 9.7m in non-recurring items...

Fast booked USD 9.7m in non-recurring items in Q3, broken down into:

- USD 2.5m of bad debt provisions
- USD 1.1m of bad debt writedowns
- USD 2.4m of writedown of Total Sports Online (TSO) and Fileflow
- USD 1m of organisational changes (CFO resignation, etc.)
- USD 1.2m NextPage contract writedown and writedown of capitalised R&D
- USD 1.5m other (office relocation, failed due diligence, etc.)

We do not believe it is fair to classify all these as non-recurring items. Bad debt provisions should be booked as they occur and are in our view not a non-recurring charge. Neither should writedowns of capitalised R&D in our view. An innovative software company is expected to take technology initiatives, which sometimes succeed and sometimes fail. This is part of daily operations. We believe office relocation and failed due diligence also happen from time to time and are recurrent in the longer term. We believe only USD 5-6m of the USD 9.7m actually reflects non-recurring costs, while the remainder should be characterised as operating costs. Consequently, we have not included the entire bad debt provision (as it should probably be allocated over several quarters) and USD 0.6m of capitalised R&D. The company will maintain a 5% bad debt provision going forward, meaning that OPEX will increase when accounts receivables do. We have increased our cost estimates slightly.

Q3 profit and loss account

	Reported	Adjusted by Fast	Adjusted by KNO
Total Net Revenues	**42.5**	**42.5**	**42.5**
Cost of revenues-search services	6.9	6.9	6.9
Cost of revenues-content services			
R&D	7.9	7.9	7.9
Sales and Marketing	18.0	18.0	18.0
General and administrative	9.4	9.4	9.4
Share-based compansation			
Share-based compansation IFRS	2.7	2.7	2.7
Non-recurring charges		(9.7)	(6.0)
EBITDA	**(2.4)**	**7.3**	**3.6**
Depreciation	4.3	4.3	4.3
EBITA	(6.7)	3.0	(0.7)
Amortization of goodwill and other in	-	-	-
EBIT	**(6.7)**	**3.0**	**(0.7)**
Equity in losses of investee	(0.2)	(0.2)	(0.2)
Interest income	1.8	1.8	1.8
Write-down of investment	-	-	-
Other, net	(0.2)	(0.2)	(0.2)
Pre-tax profit	**(5.2)**	**4.5**	**0.8**

Source: Kaupthing estimates and company data

By making these adjustments, we believe the company reported an EBIT loss in Q3 (right column). As management states that margins most likely would not increase in the short term, there could be downside to our margin estimates.

…and restated historical figures…

In Q3, Fast stated it had to revise figures for 1H 2006, 2005 and 2004 on the back of irregular accounting. This was pointed out in a report by the Norwegian SEC. The impact on Fast's net income is negative by USD 0.9m for 1H06 and USD 1.4m for 2005.

There are two reasons why Fast had to make these restatements.

1: Fast should be applying the equity method of accounting with respect to Interagon (25% ownership) and Platefood (19% ownership). The profit/loss in these companies will be booked as income from associated companies under net finance in P&L accounts. It would also have a balance effect. Platfood is the name of the joint venture between Fast, Schibsted and Sensis announced on 28 September last year (http://www.newsweb.no/index.asp?languageID=0&symbol=FAST&melding_ID=113990&lang=&date_start=13.01.2005&date_stop=13.11.2006&ncat_id=109).

2: Customer contracts acquired through the NextPage acquisition should be amortised over their defined term instead of being subject to ongoing impairment review. As a result, amortisation has increased. Fast states that there was still USD 3.2m unamortised customer contracts left end of Q2 this year, limiting effect upwards.

We are most concerned with the first observation. If Fast has sales to these companies, it will no longer be able to book them, as sales to associated companies are classified as internal revenues and consequently cannot be booked. In the 2005 Annual Report, Fast states on page 20-21 that "Revenues this year were primarily due to the delivery of new search licenses to customers such as 3 Italy …Platefood…". Fast claims this licence had a limited impact on 2005 revenues.

We have decreased our net finance assumptions going forward.

Restatements made in 3Q

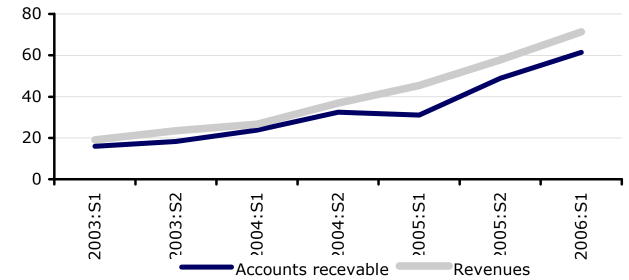
	Old 1H-06	Restated 1H-06	Old 2005	Restated 2005
Total Net Revenues	**71.3**	**71.3**	**100.2**	**100.2**
Cost of revenues-search services	11.0	11.0	13.9	13.9
Cost of revenues-content services				
R&D	8.6	8.6	17.1	17.1
Sales and Marketing	26.5	26.5	35.9	35.9
General and administrative	6.2	6.2	12.0	11.9
Share-based compansation				
Share-based compansation IFRS	5.8	5.8	5.6	5.6
Non-recurring charges				
EBITDA	**13.2**	**13.2**	**15.8**	**15.8**
Depreciation	5.8	6.2	7.4	8.8
EBITA				
Amortization of goodwill and other intangibles				
EBIT	**7.4**	**7.0**	**8.4**	**7.0**
Equity in losses of investee	(0.1)	(0.8)	(0.3)	(0.7)
Interest income	2.9	2.9	1.5	1.5
Write-down of investment				
Other, net	0.1	0.1	(0.3)	(0.3)
Pre-tax profit	**10.3**	**9.2**	**9.3**	**7.5**
margin	*14.4%*	*12.9%*	*9.2%*	*7.4%*
Minority interest				
Income tax	(4.5)	(4.4)	(0.4)	(0.0)
Net income	**5.7**	**4.8**	**8.8**	**7.4**

Source: Kaupthing estimates and company data

Worst case

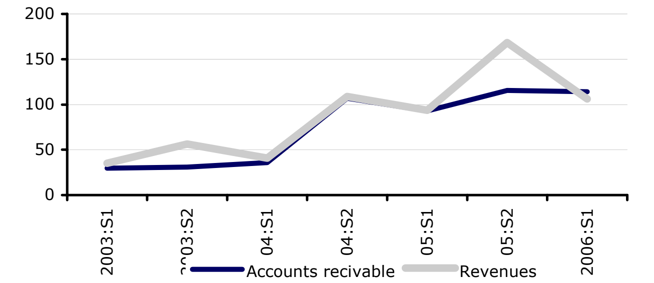
A UK listed company, iSoft (healthcare software) has been through a difficult year. But let us look at their fundamentals first. As shown below, both revenues and accounts receivables have grown at very high rates.

Fast – Revenues and AR (USDm)



Source: Kaupthing estimates and company data

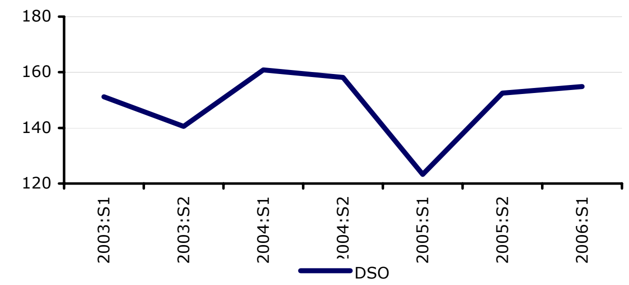
iSoft – Revenues and AR (GBPm)



Source: Kaupthing estimates and company data

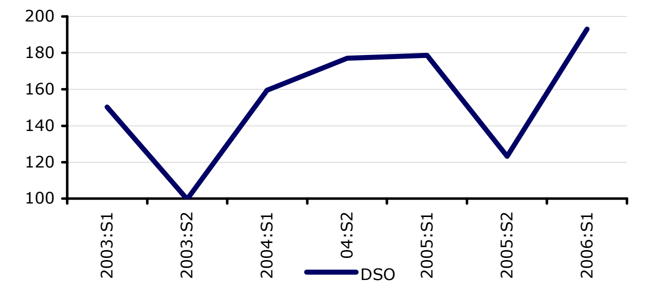
As a result, DSO for both companies has remained at a very high level.

Fast - DSO



Source: Kaupthing estimates and company data

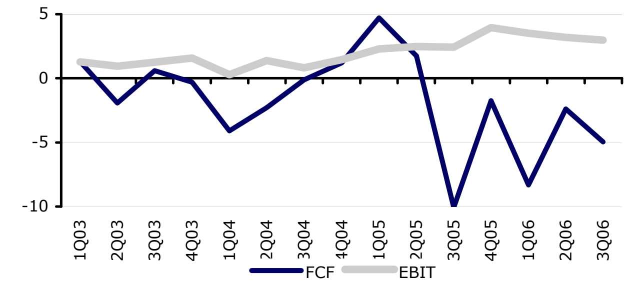
iSoft - DSO



Source: Kaupthing estimates and company data

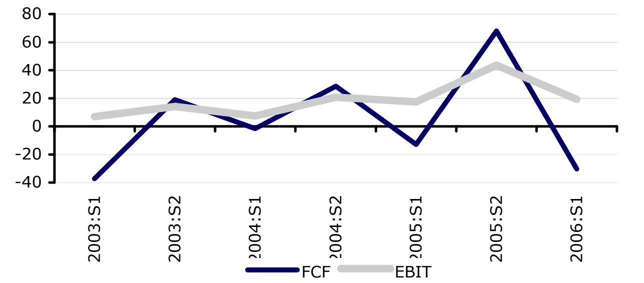
On the back of the high DSO levels, free cash flow seems to be underperforming EBIT for both companies.

Fast – FCF vs EBIT



Source: Kaupthing estimates and company data

iSoft – FCF vs EBIT



Source: Kaupthing estimates and company data

But in second half this year iSoft got into deep trouble. A project failed and as a result of its aggressive accounting, this was already booked as revenues. This now had to be reversed. As shown below, the AR also had to be written down considerably.

iSoft – trend in key figures

	2003:S1	2003:S2	2004:S1	2004:S2	2005:S1	2005:S2	2006:S1	2006:S2
Sales/Revenue/Turnover	35	56	41	109	94	168	106	96
SG&A / Oth Op / Dep Op & Maint	28	42	33	88	76	125	87	101
EBIT	7	14	7	21	18	44	19	-6
margin	*20%*	*25%*	*18%*	*19%*	*19%*	*26%*	*18%*	*-6%*
PTP	4	9	5	6	12	25	12	-395
Accounts receivable	29	31	36	107	93	115	114	66

Source: Kaupthing estimates and company data

Previously, the company recognised the product licences at the time of delivery. Now, the company recognises licence revenue over the implementation period, which may range from a few months to a number of years. As a result historical revenue has been restated

Revenue restatements

	2003	2004	2005	2006	2007	2008	2009	2010	Beyond
Adjusted for the yea	-44	-54	-75	-11					
Re-profited revenue					42	51	28	32	31
Total	-44	-54	-75	-11	42	51	28	32	31
Revenue (GBPm)									
Reported	92	150	262	213					
Adjusted	48	96	186	202					
Growth reported		63%	75%	-19%					
Growth adjusted		101%	95%	8%					

Source: Company data

We believe this underlines the risks of having high and increasing AR, high DSO, and weak cash flow following aggressive revenue recognition. We believe Fast has a more diversified customer structure than iSoft, making project risk somewhat smaller.

iSoft – Share price development -one year

Source: Kaupthing estimates and company data

Forecast P&L, cash flow - Fast Search & Transfer (USDm)

Profit and loss	**2001**	**2002**	**2003**	**2004**	**2005**	**2006E**	**2007E**	**2008E**
Total sales	0	1	42	64	100	161	239	343
Total expenses	-46	-26	-29	-49	-84	-143	-199	-291
EBITDA	**-46**	**-25**	**13**	**15**	**16**	**18**	**40**	**52**
Depreciation	-10	-4	-6	-8	-9	-15	-19	-20
Amortisation	0	0	0	0	0	0	0	0
Impairment charges, gw.	0	0	0	0	0	0	0	0
Other items / EBIT adj.	0	0	0	0	0	0	0	0
EBIT	**-56**	**-30**	**8**	**7**	**7**	**4**	**21**	**32**
Net financial items	-8	1	0	1	0	6	2	2
Share of res. of ass. companies	0	0	0	0	0	0	0	0
PTP	**-64**	**-28**	**7**	**9**	**7**	**9**	**23**	**34**
Tax	0	0	8	-1	0	-5	-7	-10
Profit after taxes	-64	-28	15	8	7	4	16	24
EO items not in EBIT	0	0	0	0	0	0	0	0
Net income before min. int.	-64	-28	15	8	7	4	16	24
Net profit, reported	**-64**	**-32**	**71**	**7**	**7**	**4**	**16**	**24**
Adjusted profit and loss								
Analyst adjustments	0	0	0	0	0	0	0	0
EBIT (adj.)	-56	-30	8	7	7	4	21	32
PTP (adj.)	-64	-28	7	9	7	9	23	34
Net profit (adj.)	-64	-32	71	7	7	4	16	24
Impairment charges, gw.	0	0	0	0	0	0	0	0

Balance sheet - Fast Search & Transfer (USDm)

Assets	**2001**	**2002**	**2003**	**2004**	**2005**	**2006E**	**2007E**	**2008E**
Goodwill	0	0	0	0	0	0	0	0
Other intangibles	7	8	8	31	35	60	60	60
Tangible assets	13	7	2	3	7	18	30	36
Fixed assets, other	1	1	12	11	49	42	42	42
Shares, associated companies	0	0	0	0	0	0	0	0
Total fixed assets	**20**	**16**	**22**	**45**	**91**	**119**	**132**	**137**
Inventory	0	0	0	0	0	0	0	0
Accounts receivable	9	16	18	32	49	0	0	0
Other current ass. and tax	4	5	18	6	8	93	126	161
Cash and equivalents	9	25	77	77	126	250	239	245
Total current assets	**22**	**46**	**113**	**115**	**183**	**343**	**365**	**406**
Total assets	**42**	**62**	**135**	**161**	**274**	**462**	**497**	**544**
Equity and debt								
Shareholders equity	15	52	122	134	241	413	429	453
Minority interest	0	0	0	0	0	0	0	0
Total equity	**15**	**52**	**122**	**134**	**241**	**413**	**429**	**453**
Deferred tax debt	0	0	0	0	0	0	0	0
Pension provisions	0	0	0	4	1	1	1	1
Other provisions and l-t liab.	6	0	1	0	1	1	1	1
Convertible debt	0	0	0	0	0	0	0	0
Long-term int.-bearing debt	0	0	0	0	0	0	0	0
Total long-term liab.	**6**	**0**	**1**	**5**	**2**	**3**	**3**	**3**
Accounts payable	1	2	1	2	5	38	56	80
Other current liab. and tax	20	8	10	20	26	9	9	9
Short-term int.-bearing debt	0	0	0	0	0	0	0	0
Total current liab.	**21**	**9**	**12**	**22**	**31**	**46**	**65**	**88**
Total liab. and equity	**42**	**62**	**135**	**161**	**274**	**462**	**497**	**544**
Interest-bearing debt	0	0	0	4	1	1	1	1
Net debt (- =assets)	-9	-25	-77	-73	-125	-249	-237	-244
Operating capital	6	27	46	61	116	164	192	209

Source: Kaupthing estimates, company data

KAUPTHING

Cash flow - Fast Search & Transfer (USDm)

Cash flow statement	2001	2002	2003	2004	2005	2006E	2007E	2008E
Operating profit	-56	-30	8	7	7	4	21	32
Provisions	0	0	0	0	0	0	0	0
Total depr. and writedowns	10	4	6	8	9	15	19	20
Chg. working capital	8	-20	-13	8	-9	-21	-15	-12
Other non-cash items	2	-4	4	-14	-2	0	0	0
Net financial items	-8	1	0	1	0	6	2	2
Income taxes paid	0	0	8	-1	0	-5	-7	-10
Operating cash flow	-43	-48	12	9	5	-2	20	32
Capex	-5	-6	-6	-13	-17	-28	-26	-26
FCF from operations	-49	-54	6	-4	-12	-30	-6	6
Fin. inv. and acquisitions	-1	0	50	3	-43	-33	-6	0
Share issue/repurchase	18.4	27.6	1.1	0.0	100.1	0.0	0.0	0.0
Dividend paid	0	0	0	0	0	0	0	0
Other items	40.0	42.5	-5.5	-2.6	7.9	186.8	0.0	0.0
Change in net debt	9	16	52	-4	52	124	-12	6

Key figures - Fast Search & Transfer

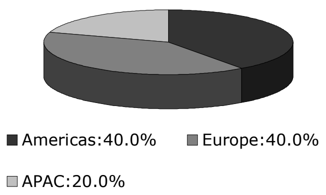
Valuation	2001	2002	2003	2004	2005	2006E	2007E	2008E
Market cap	378	137	573	520	998	926	960	960
Enterprise value	369	112	496	447	873	677	711	711
P/E	n.m.	n.m.	8.0	77.8	148.4	233.3	59.2	40.7
P/E (adj.)	n.m.	n.m.	8.7	86.4	148.4	242.4	63.5	43.7
P/E (adj. excl. gw.)	n.m.	n.m.	8.7	86.4	148.4	242.4	63.5	43.7
P/CE	n.m.	n.m.	23.1	438.9	79.0	51.5	27.5	21.9
P/S	140.7	194.0	13.5	8.2	11.0	6.0	4.0	2.8
P/BV	2.3	2.6	4.7	3.9	4.6	2.3	2.2	2.1
Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (adj.)	n.m.	n.m.	37.5	29.8	55.2	37.5	17.8	13.6
EV/EBIT (adj.)	n.m.	n.m.	65.2	60.0	124.5	191.0	33.5	22.4
EV/S	1,537.76	158.82	11.70	7.04	8.71	4.21	2.97	2.07
Data per share								
Adjusted EPS (also gw.)	-0.3	-0.1	0.3	0.0	0.0	0.0	0.0	0.1
EPS (adj. excl. gw.)	-0.3	-0.1	0.3	0.0	0.0	0.0	0.0	0.1
CEPS	-2.6	-0.1	0.1	0.0	0.0	0.1	0.1	0.1
Dividend per share	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BV per share	0.1	0.2	0.5	0.5	0.9	1.2	1.2	1.3
Net debt per share	0.0	-0.1	-0.3	-0.3	-0.5	-0.7	-0.7	-0.7
FCF per share	-0.2	-0.2	0.0	0.0	0.0	-0.1	0.0	0.0
Growth (%)								
Sales growth	n.m.	193.3	5,925.0	49.9	57.7	60.5	48.7	43.2
Net profit growth	n.m.	n.m.	n.m.	-90.6	10.9	-44.5	294.2	45.5
Equity growth	n.m.	249.9	135.2	9.3	80.3	71.1	3.9	5.5
Dividend growth	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Margins and profitability (%)								
Gross margin	-6,154.6	-949.7	78.9	87.9	86.1	84.5	84.7	84.3
EBIT margin (adj.)	-23,320.8	-4,199.1	18.0	11.7	7.0	2.2	8.9	9.3
Net profit margin (adj.)	-26,480.0	-4,608.9	168.4	10.5	7.4	2.6	6.8	6.9
Return on equity, RoE	-854.3	-96.9	81.8	5.2	3.9	1.3	3.8	5.4
ROCE	-855.6	-85.0	8.6	6.7	3.9	2.9	5.5	7.6
Capital structure								
Debt/equity ratio	0.0	0.0	0.0	3.3	0.3	0.3	0.3	0.3
Capital employed	15	52	122	138	242	414	431	454
Net debt/equity	-0.60	-0.48	-0.62	-0.54	-0.52	-0.60	-0.55	-0.54
Net debt (- =assets)	-9	-25	-77	-73	-125	-249	-237	-244
Asset turnover	0.0	0.0	0.3	0.4	0.4	0.3	0.5	0.6
Equity ratio (%)	35.0	84.4	90.7	83.3	88.1	89.4	86.4	83.3
Cash flow								
Capex/sales (%)	2,260.4	871.2	15.0	20.6	16.9	17.3	10.9	7.6
Capex/depr. (%)	53.2	140.2	113.2	173.2	192.5	192.1	139.1	128.2
Working capital	-8	12	24	17	26	47	62	73

Source: Kaupthing estimates, company data

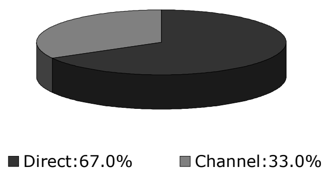
Company data - Fast Search & Transfer

Owners	% of capital
Orkla	10.4
Euroclear Bank	8.6
Opticom	7.4
Bank Julius Baer and Co. AG	3.3
Gudesen Hans Gude	3.0
Charles Street	3.0
JPMorgan Chase Bank	2.5
Goldman Sachs and Co.	1.9

Geogr. areas	% of sales
Americas	40.0
Europe	40.0
APAC	20.0

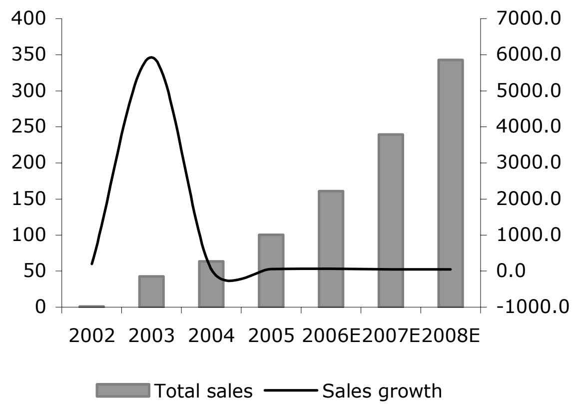


Business areas	% of sales
Direct	67.0
Channel	33.0

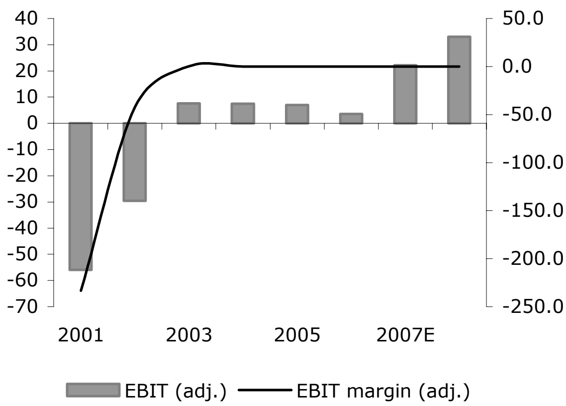


Management	
Chairman	Thomas J. Fussell
CEO	John M. Lervik
CFO	Ali I. Riaz
IR	Bengt Jonassen

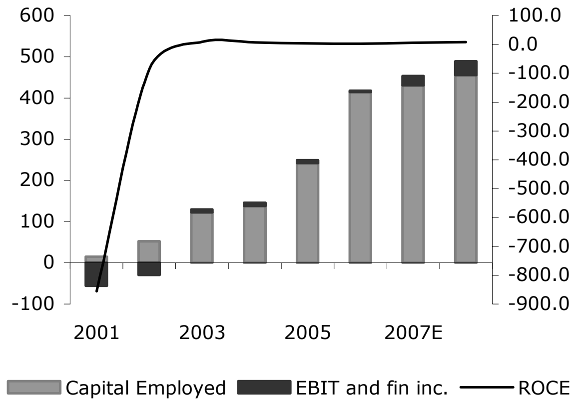
Sales and growth



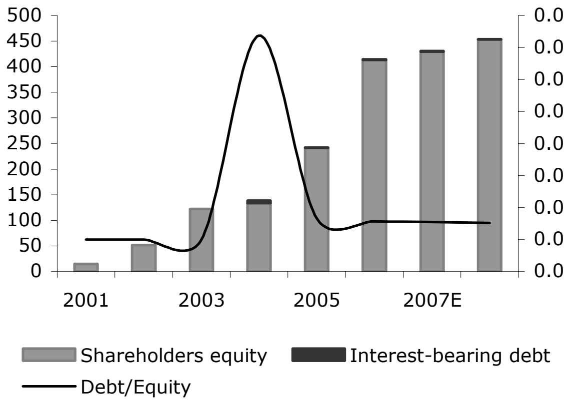
Operating profit and margin



Return on capital employed



Gearing



Source: Kaupthing estimates, company data

IMPORTANT DISCLOSURES

Company covered: Fast Search & Transfer (Hereafter referred to as "This Company")

Planned frequency for updates of report about this Company: 3-4 times per year
Shares held by the analyst(s) and/or close associate in this Company: 0
Other material interest (if any): None
This report has not been presented to the Company before publication.
Kaupthing's recommendation history for Fast Search & Transfer during the last 12 months: 22 Mar 2006 Buy

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Kaupthing Research Department

Recommendation definition
Our recommendations are based on a twelve-month horizon, and on absolute performance.
Definitions: Buy: indicates an expected return of greater than +15%. Accumulate: greater than +5% and less than or equal to +15%. Reduce: greater than -10% and less than or equal to +5%. Sell: less than -10%.

Current recommendations of the Research Department: (refers to recommendations published prior to this report)

Kaupthing	Percent	SRO Equivalent	Percent
Buy	35%	Buy	35%
Accumulate	42%	Hold	62%
Reduce	21%		
Sell	3%	Sell	3%
Total	100%	Total	100%

Generally, investments in financial instruments involve risks. For specific risks related to our various recommendations, please see the latest relevant reports. The target prices on companies in the Kaupthing Research universe reflect the subjective view of the analyst about the absolute price that shares should trade at, within our twelve-month recommendation horizon. The target price is based on an absolute valuation approach, which is detailed in our research reports. The target price can differ from the absolute valuation, in accordance with the analyst's subjective view on the trading or cyclical patterns for a particular stock, or a possible discount/premium to reflect factors such as market capitalisation, ownership structure and/or changes in the same, and company-specific issues.

Standard research disclaimer

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