

Dagsbrún

High income growth – unsatisfactory margin

As expected, Dagsbrún posted a loss for the first quarter of 2006. The loss amounted to ISK 230 million (m), or ISK 195m after taxes. Performance in the quarter was affected by a net foreign exchange loss of ISK 210m and one-off costs of ISK 50m due to investment activities.

Overall, Dagsbrún's results were in line with Landsbanki Research's forecast of a loss of ISK 175m. EBITDA fell short of our expectations, however, which is wholly attributable to 365 Media's poor margin. This was offset by a lower foreign exchange loss than we predicted. Other items were in line with expectations.

Telecoms arm's hefty organic growth

The company's total Q1 income was ISK 4,910m, compared with our forecast of ISK 4,915m, up by 44% from the year-ago quarter. If the revenues of Kall, Securitas and Sena are included in 2005 income (pro forma), the rise over Q1 of 2005 is 16%, which must still be considered a healthy growth rate. This is the third quarter that Kall is included in the Group's accounts, while Securitas and Sena were only consolidated in the Q1 financial statements in February and March.

All of Dagsbrún's main operating segments showed healthy organic growth, at 18% for telecoms operations, 26% for print media and 12% for broadcasting. The telecoms arm's revenue growth was impressive, with its organic growth attaining three-year record levels. This increase was partly due to the successful marketing of Og Vodafone's price plan (Og1), a generally increased share in the telecoms market and a broader product range.

	Q1 05 Actual	Q1 06 Actual	Change 05/06	Q1 06 Forecast	Change 05/06	2005 Actual	Change 04/05	2006 Forecast	Change 05/06
mISK									
Income	3,435	4,910	42.9%	4,915	43.1%	15,325	121.2%	53,077	246.3%
Expenses	2,709	4,248	56.8%	4,140	52.8%	12,243	145.0%	45,853	274.5%
EBITDA	727	662	-8.9%	775	6.7%	3,082	59.7%	7,224	134.4%
Profit	199	-195	198.0%	-175	188.0%	718	41.1%	1,880	161.8%
As a ratio of income									
EBITDA	21.2%	13.5%		15.8%		20.1%		13.6%	
Profit	5.8%	-4.0%		-3.6%		4.7%		3.5%	
Key ratios									
12M Price/Earnings ratio (P/E)	29.7	80.8		109.5		36.1		19.3	
12M EV/EBITDA	11.5	14.9		14.8		11.2		12.9	
Earnings per share (EPS)	ISK 0.048	ISK -0.042		ISK -0.042		ISK 0.172		ISK 0.231	
Return on equity (ROE)	9.0%	-1.7%		-8.1%		35.2%		13.4%	
Equity ratio	38.4%	31.7%		38.4%		38.4%		23.0%	

* Kögun is included in earnings estimate as of 1 April and Wyndeham as of 1 May

365 Media's organic growth over the same period last year totalled 17.8%, which must be considered satisfactory given that Q1 of 2005 was unusually strong as a result of how Easter fell. The positive impact of the Easter season on 365 Media, due to increased advertising and

Closing market price 5.23
Market cap ISK 26.2bn

Date of latest valuation 14.02.2005
Valuation updated* Under review
Valuation share price Under review
Price spread (+/- 50bp disc. rate) Under review

*Particulars as provided for in the most recent valuation with an updated discount rate, exchange rates and securities holdings.

Landsbanki's holding in Dagsbrún is 12% according to the company's share register as at 4 May 2006. The Bank's direct holding in Dagsbrún is under the flagging limits of the Iceland Stock Exchange (ICEX).

During the past 12 months, Landsbanki has coordinated a share capital increase for Dagsbrún, underwritten a bond issue by the company and served as consultant for its acquisitions.

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365 Media's organic growth over the year-ago quarter was 17.8%, a satisfactory performance

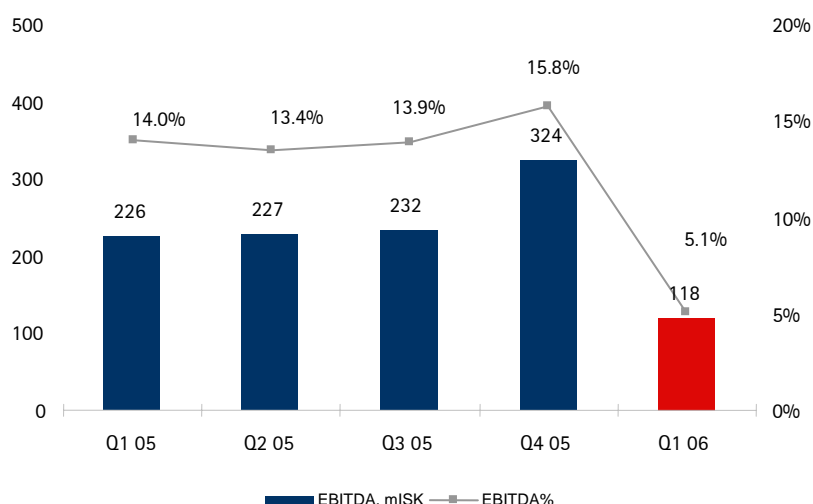
subscription income, can be expected to feature in the Q2 results. At Dagsbrún's presentation of the Q1 results, management stated that the membership of its M12 subscribers loyalty scheme has never been higher, and that the same applies to the number of subscribers and income of the company's TV channel Stöð 2.

365 Media's margin not up to standard

The newspaper DV's below-par performance only partly explains 365 Media's poor margin

EBITDA for the quarter was ISK 662m, or the equivalent of 13.5% of turnover. According to Dagsbrún's management, the 9% year-on-year drop in EBITDA is owing to one-off costs of ISK 50m incurred by increased investment activities and the newspaper DV's negative EBITDA of ISK 50m. Our earnings estimate was for EBITDA of ISK 775m (15.8% of turnover), taking into account net costs of ISK 80m due to increased investment. The margin thus fell short of our expectations, wholly owing to 365 Media's unsatisfactory margin, at only 5% of turnover. DV's poor showing only partly explains the low margin. At the Q1 presentation, Dagsbrún's management said that development of the TV news channel NFS, the talk radio station Talstöðin and the young people's entertainment TV channel Sirkus had shaped the results, and that Q1 is normally the poorest quarter for the entertainment subsidiary Sena. Dagsbrún's press release on the results states that development of NFS and Sirkus can be expected to incur further costs in 2006.

365 Media's EBITDA



The telecoms segment's EBITDA margin was in keeping with expectations at 24%, but appears to have slid somewhat during the latter half of last year. Management stated at the presentation that margins in the telecoms market are generally contracting.

Dagsbrún needs to turn in an EBITDA averaging ISK 1.0bn per quarter for the rest of the year to achieve its 2006 targets

At the beginning of 2006, Dagsbrún set itself performance targets for the year. This included an EBITDA margin of ISK 3.8bn-4.1bn, which corresponds to 17.6-18.2% of turnover. Adjusting for DV's poor results and the one-off investment costs, which combined total ISK 100m, the company needs to achieve an EBITDA averaging ISK 1.0bn per quarter for the rest of the year to achieve its goal. This excludes the latest acquisitions, Kögun and Wyndeham.

Dagsbrún's segment reporting for Q1 of 2006

mISK	Telecoms	Media	Investment	Offset entries	Group
Sales	2,641	2,302	0	0	4,943
Intra-Group sales	0	0	46	-102	-56
Total sales	2,641	2,302	46	-102	4,887
					0
EBITDA	634	118	-90		662
Depreciation	292	103	12		407
EBIT	342	15	-102		255
EBITDA%	24.0%	5.1%			13.5%
EBIT%	12.9%	0.7%			5.2%

Cash from operations ISK 232m

Targeted risk management cut foreign exchange loss by ISK 300m

The company's Q1 performance was affected by exchange rate movements, with foreign exchange loss on foreign loans totalling about ISK 500m. However, targeted risk management reduced the foreign exchange loss substantially, and the book-value loss came in at ISK 210m. It is worth noting that although net cash provided by operating activities was ISK 232m, this was offset by investment in fixed assets for ISK 241m. To simplify, it could be said that there were no cash flows in the quarter.

Balance sheet keeps swelling

Dagsbrún's balance sheet has grown by ISK 17bn since year-end 2005, primarily due to the company's 51% stake in the IT company Kögun and 20% stake in the UK pre-press, print and communications firm Wyndeham. In addition, intangible assets increased by ISK 5.6bn, which is attributable to the consolidation of Sena and Securitas in the Group's accounts. Dagsbrún's balance sheet is set to expand still further in Q2 because the company has almost finalised its acquisition of Wyndeham and its acquisition of Kögun is at an advanced stage.

Dagsbrún's equity ratio is estimated at 22-24% after refinancing and an issue of new shares

The company's current liabilities rose by ISK 12bn in Q1, mostly due to a loan facility of over ISK 9bn taken out for the acquisition of shares in Kögun and Wyndeham. As a result, Dagsbrún's current ratio has fallen from 0.91 to 0.35. The company's Q1 press release states that Dagsbrún is preparing its refinancing. After this refinancing exercise and a forthcoming share capital increase, Dagsbrún's management estimate the company's equity ratio to be in the range 22-24%.

Valuation under review

Dagsbrún has been on an acquisition spree and thereby achieved its target declared at the start of 2006 to double the scope of the Group's operations over the ensuing 12 to 18 months. The company will present its strategy and a revised budget for 2006 shortly. Our valuation of the company is under review, and no investment recommendation is given at present.

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INSIGHT - company performance	Dagsbrún – Q1 of 2006
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