

# Opera Software

Fourth quarter 2006



The best Internet experience on any device

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# OPERA SOFTWARE ASA – FOURTH QUARTER 2006

Opera delivered revenues of MNOK 60.6 in 4Q06, up 26% versus 4Q05, driven by growing mobile shipments, increasing momentum among non-mobile device manufacturers and stronger desktop revenues.

## Highlights

- Revenues of MNOK 60.6 in 4Q06, up from MNOK 48.1 in 4Q05, an increase of 26%. EBIT was MNOK -15.7 in 4Q06 compared to MNOK 3.8 in 4Q05.

## Business segment

- The number of mobile phones sold with the Opera browser was 10.5 million<sup>1</sup> in 4Q06, compared to 6.1 million units in 4Q05. This represents an increase of 72% in 4Q06 compared to 4Q05
- 4 new mobile phones that include the Opera Mobile browser were announced in 4Q06. Opera announced 37 new models in 2006
- Opera signed an agreement with Samsung to deliver the Opera Mobile browser on Samsung mobile phone handsets
- Telefónica Móviles de España, a leading European mobile operator, selected Opera Mini and Opera Mobile for its new "Navega" mobile Web service and portfolio of Web-enabled handsets
- Nintendo and Opera announced the availability of the Opera browser for the Wii beginning on December 22, 2006. A new release of the Opera browser for the Wii is expected in 2Q07
- Sony Electronics, Inc., selected the Opera 9 Software Development Kit (SDK) to power future consumer electronics products
- Nokia announced that it is pre-installing Opera Mini on the Nokia 6300, a Series 40-based handset for the mass market

## Consumer segment

- Opera released Opera Mini 3.0, supporting innovative mobile social networking features. As of February 22, 2007, Opera Mini has been downloaded and used by almost 12 million people worldwide, and nearly 4 billion web pages have been downloaded, generating strong data traffic, and therefore revenue, to mobile phone operators worldwide.
- Opera for Desktop renewed its search agreement with Google as the default search partner, based on new commercial terms.

## Financials

### Revenues

Revenue in 4Q06 was MNOK 60.6, up 26% from 4Q05, where revenue was MNOK 48.1. Revenue growth in the quarter was primarily driven by attractive growth within both the mobile phone and devices segments, as well as very strong growth in desktop revenue. For FY06, revenue was MNOK 213.8 versus MNOK 154.0 in FY05, an increase of 39%.

### Operating costs

Total operating costs for 4Q06 were MNOK 76.2 compared to MNOK 44.2 in 4Q05, an increase of 72%. For FY06, total operating costs were MNOK 241.3 versus MNOK 153.0 in FY05, an increase of 58%.

Payroll and related expenses, excluding stock option costs: Total payroll and related expenses, excluding stock option costs, were MNOK 48.1 in 4Q06 compared to MNOK 32.5 in 4Q05, an increase of 48%. This increase was due primarily to higher headcount in engineering and sales and marketing globally. Total payroll costs for FY 06 were MNOK 157.0 compared to MNOK 101.4 in FY05, an increase of 55%.

Stock option costs: Total stock option costs for 4Q06 were MNOK 2.1 compared to MNOK 0.8 in 4Q05. Total Stock option costs for FY 06 were MNOK 10.0 compared to MNOK 6.9 in FY05.

Other operating expenses: Other Operating Expenses in 4Q06 were MNOK 24.7 compared to MNOK 10.3 in 4Q05, an increase of 139%. Increased Other Operating Expenses are largely attributable to higher marketing, travel and other indirect costs associated with both higher headcount and the Company's global expansion. As announced in the 3Q06 Quarterly Report, Opera also incurred approximately MNOK 4.5 of non-recurring expenditures. Total other operating expenses for FY 06 were MNOK 70.0 compared to MNOK 42.6 in FY05.

### EBIT

Excluding stock option costs, EBIT was MNOK -13.6 in 4Q06 versus MNOK 4.6 in 4Q05. EBIT was MNOK -15.7 in 4Q06 compared to MNOK 3.8 in 4Q05 Total EBIT for FY 06 was MNOK -27.5 compared to MNOK 0.9 in FY05.

### Interest income and FX gains/losses

Interest income was MNOK 4.7 in 4Q06 versus MNOK 0.5 in 4Q05. Interest income was significantly higher than in 4Q05 largely as a result of a much higher cash balance, after Opera's common share secondary offering in 1Q06. Opera had a foreign exchange loss of MNOK 1.7 in 4Q06 compared to gains of MNOK 0.7 in 4Q05. Total interest income for FY 06 was MNOK 13.6 compared to MNOK 3.1 in FY05. Total FX gains/(losses) for FY 06 were MNOK -4.7 compared to MNOK 0.6 in FY05.

### Net income

Net Income was MNOK -12.8 in 4Q06 compared to MNOK 3.6 in 4Q05. EPS and fully diluted EPS were -0.109 and -0.105, respectively, in 4Q06, compared to 0.04 and 0.03 respectively, in 4Q05. Total Net Income for FY 06 was MNOK -18.0 compared to MNOK 2.8 in FY05.

### Liquidity and capital resources

The Company's net cash flow from operating activities was MNOK 10.0 in 4Q06 compared to MNOK 1.9 in 4Q05. The positive cash flow in 4Q06 is largely attributable to an increase in deferred revenue. Deferred revenue is invoiced and pre-paid but unrecognized revenue.

Cash: Cash and cash equivalents at the end of 4Q06 were MNOK 424.5.

Organization: At the end of 4Q06, the Company had 374 full-time employees compared to 264 at the end of 4Q05.

## Segment overview

Opera's corporate vision is to provide the best Internet experience on any device. Throughout 2006, Opera has continued to deliver on its mission, with Opera powering the Internet on not only a growing range of mobile phones, but also on a broader array of non-mobile Internet-connected devices, such as IP set-top boxes, portable media players, gaming consoles, and VoIP phones. Opera has also seen user growth on its Desktop product.

In January 2006, Opera launched Opera Mini. With Opera Mini, almost any mobile phone can display Web sites, Web email services and more. Opera offers customer- and Opera-branded versions of Opera Mini to OEMs, mobile operators, and content providers, and provides Opera branded solutions directly to end consumers both from its corporate website and indirectly through its business partners.

Beginning in 4Q06, Opera has divided its business into two core segments: Business and Consumer. Opera's Business

<sup>1</sup> Actual 3Q06 mobile phone shipments with Opera Mobile: 8.8 million units.

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Segment focuses on OEMs and operators, while Opera's Consumer segment markets directly to the consumer and content providers. For reporting purposes in FY2006, Internet Devices contains revenue from both the Business Segment and Opera Mini.

## Internet Devices

Internet Devices includes revenue from both mobile phones and other internet connected devices, such as game consoles, IP TV set-top boxes and portable media players. The segment also includes Opera Mini revenue from mobile operators such as T-Mobile.

Revenue from the Internet Devices rose to MNOK 47.7 in 4Q06 compared to MNOK 41.7 in 4Q05, an increase of 14%, powered by strong growth across both the mobile phone and other internet device segments. Total revenue from Internet Devices for FY 06 was MNOK 180.8 compared to MNOK 128.1 in FY05, an increase of 41%.

## Opera Mobile

Shipped on millions of devices from the major mobile phone manufacturers and operators worldwide, the Opera browser lets users surf the full Web on their mobile phones.

Revenues from Opera Mobile continued to grow in the fourth quarter as Opera gets pre-installed on an increasing number of 3G handsets among its OEM and operator customers.

In 4Q06, Opera signed an agreement with Samsung to deliver the Opera Mobile browser on Samsung mobile phone handsets. Samsung is the 3<sup>rd</sup> largest mobile phone manufacturer in the world by market share.

## Opera Mini - Business

Since launch through 4Q06, Opera has signed distribution deals for the Opera-branded Mini browser with 9 mobile operators and has two major European operators, T-Mobile International and Telefónica Móviles de España, using a customer branded version of the Opera Mini browser as part of their Web-enabled handset portfolios.

Telefonica and Opera signed an agreement in 4Q06, where the Spanish mobile operator selected Opera Mini and Opera mobile to power its new "Navega" Web service. Telefonica is among the largest mobile phone operators in the world.

In 4Q06, 1 new phone was announced with Opera Mini pre-installed, bringing the year to date totals through 4Q06 to 35.

## Opera Devices

Opera provides an optimized implementation of Internet technologies for handheld devices, digital TV and other devices, with innovative and powerful features that seamlessly adapt the Internet experience to suit varying screen sizes and input devices.

Opera for Devices continues to grow in its core market segments, as Opera's browsers get installed on an increasing array of non-mobile phone internet connected devices, such as game consoles, portable media players and net-TVs. This was Opera's fastest growing business segment from a revenue growth standpoint in 2006.

In the quarter, Opera announced that Sony Electronics Inc., signed a deal for the Opera 9 Software Development Kit (SDK) to be used in future consumer electronics products.

The company also released the much-anticipated Opera browser for the Wii game console from Nintendo, initially in trial version. In 2Q07, the two companies expect to release the final version of the Opera browser for Wii.

## Desktop

Since the first public release in 1996, Opera has remained at the forefront of browser innovation on desktop PCs. Opera's desktop browser provides its users with a safe, efficient and enjoyable browsing experience.

Revenue from Desktop rose 101% in 4Q06 to MNOK 12.9 compared to MNOK 6.4 in 4Q05. Total revenue from Desktop for FY 06 was MNOK 33 compared to MNOK 25.8 in FY05, an increase of 28%.

The increase in Desktop revenue in 4Q06 and FY06 is largely attributable to an increase in users in 2006, particularly in 2H2006, and a renegotiated agreement with Google based on improved commercial terms.

## Outlook

Opera's revenue in 4Q06, overall, was in line with Opera's expectations, both in Internet Devices and Desktop.

From an operating cost perspective in 4Q06, total expenses were higher than expected due to higher than expected Other Operating Costs.

For FY2007, Opera remains positive about the Company's long-term growth prospects, as consumers worldwide embrace and access the Internet through a growing array of mobile and non-mobile phone devices. Opera believes it is well-positioned to take advantage of the "mega-trends" within both the mobile phone and consumer electronics industries. The Company also sees positive growth prospects in the Desktop segment as its user base grows worldwide. From an operating cost perspective, Opera expects to hire around 90 people in 2007, with more hires expected in the 1H2007 than the 2H2007; moreover, more hires are planned in sales and marketing than ever before in a single year. Opera is implementing new systems and processes in 1Q07 to optimally manage the continued growth of the company.

Opera's key priorities in FY2007 include (i) focusing and investing in a more aggressive manner in the Consumer Segment (Desktop, Mini, MyOpera), (ii) accelerating momentum among mobile phone operators worldwide, (iii) increasing Opera's position with top mobile phone OEMs globally, and (iv) building on the momentum Opera has going into FY2007 among major consumer electronic OEMs. Moreover, Opera intends to begin capitalizing on its unique cross-platform position and offering content related services to its users, leveraging the fact that its browsers run on a wide and disparate array of device types and form factors.

Oslo, February 28, 2007  
The Board of Directors  
Opera Software ASA

Nils A. Foldal  
Chairman  
(sign.)

Jon S. von Tetzchner  
CEO  
(sign.)



## CONSOLIDATED STATEMENTS OF INCOME

(In thousands of NOK, except per share amounts)

(Unaudited)

INCOME STATEMENT	Q4 2006	Q4 2005	% Increase	FY 2006	FY 2005	% Increase
Desktop	12 850	6 396	101 %	32 996	25 826	28 %
Internet Devices	47 704	41 669	14 %	180 788	128 128	41 %
<b>Total Revenue</b>	<b>60 554</b>	<b>48 065</b>	<b>26 %</b>	<b>213 784</b>	<b>153 954</b>	<b>39 %</b>
Payroll and related expenses, excluding stock option costs	48 070	32 494	48 %	156 960	101 437	55 %
Stock option costs	2 075	798	160 %	9 970	6 896	45 %
Depreciation and amortization	1 395	594	135 %	4 364	2 055	112 %
Other operating expenses	24 705	10 340	139 %	69 961	42 639	64 %
<b>Total Expenses</b>	<b>76 244</b>	<b>44 226</b>	<b>72 %</b>	<b>241 255</b>	<b>153 027</b>	<b>58 %</b>
Earnings Before Interest and Taxes ("EBIT")	(15 690)	3 839		(27 471)	927	
Interest income	4 720	459		13 559	3 137	
FX gains/losses (negative amount = losses)	(1 655)	711		(4 684)	554	
Earnings Before Taxes ("EBT")	(12 626)	5 009		(18 596)	4 618	
Provision for Taxes	(216)	(1 428)		308	(1 819)	
<b>Net Income</b>	<b>(12 842)</b>	<b>3 581</b>		<b>(18 288)</b>	<b>2 799</b>	
Earnings Per Share	(0,109)	0,035		(0,155)	0,028	
Earnings Per Share, Fully Diluted	(0,105)	0,032		(0,150)	0,027	
Shares used in per share calculation (mm)	117 878 246	102 827 080		117 878 246	102 827 080	
Shares used in per share calculation, Fully Diluted (mm)	122 109 746	110 560 580		122 109 746	110 560 580	
Number of Employees	374	264	42 %	374	264	42 %

HISTORICAL SUMMARY: LAST 6 QUARTERS	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005
<u>Revenue ('1000s of NOK)</u>						
Desktop	12 850	8 150	5 875	6 120	6 396	6 069
Internet Devices	47 704	45 030	46 338	41 717	41 669	31 437
Other	0	0	0	0	0	0
<b>Total Revenue</b>	<b>60 554</b>	<b>53 180</b>	<b>52 213</b>	<b>47 837</b>	<b>48 065</b>	<b>37 506</b>
<u>Revenue (% Growth)</u>						
Desktop	58 %	39 %	-4 %	-4 %	5 %	-13 %
Internet Devices	6 %	-3 %	11 %	0 %	33 %	-6 %
<b>Total Revenue</b>	<b>14 %</b>	<b>2 %</b>	<b>9 %</b>	<b>0 %</b>	<b>28 %</b>	<b>-7 %</b>
<u>Revenue (% of Total Revenue)</u>						
Desktop	21 %	15 %	11 %	13 %	13 %	16 %
Internet Devices	79 %	85 %	89 %	87 %	87 %	84 %

EBIT	(15 690)	(6 754)	2 183	(7 210)	3 839	(5 137)
EBIT, excluding stock option costs	(13 616)	(6 554)	1 448	1 220	4 637	(1 576)
EBITDA	(14 295)	(5 609)	3 328	(6 404)	4 433	(4 462)
EBITDA, excluding stock option costs	(12 220)	(5 409)	2 593	2 026	5 231	(901)
EPS	(0,109)	(0,018)	0,010	(0,041)	0,035	(0,028)
EPS, Fully Diluted	(0,105)	(0,018)	0,010	(0,038)	0,033	(0,026)



## CONSOLIDATED BALANCE SHEET AND CASH FLOW STATEMENT

(In thousands of NOK, except per share amounts)

(Unaudited)

<b>BALANCE SHEET</b>	<b>Q4 2006</b>	<b>Q3 2006</b>	<b>Q4 2005</b>	<b>FY 2005</b>	<b>FY 2004</b>
Deferred Taxes	9 730	5 954	1 237	1 237	1 631
Goodwill	3 143	3 143	3 143	3 143	3 143
Fixed Assets, Net	20 754	16 259	9 251	9 251	2 338
Accounts Receivable	55 172	35 963	24 822	24 822	18 648
Accrued, but Unbilled Revenue	43 636	56 583	57 142	57 142	10 979
Other Current Assets	5 424	5 546	11 385	11 385	3 777
Cash and cash equivalents	424 498	415 982	218 526	218 526	241 275
<b>Total Assets</b>	<b>562 358</b>	<b>539 430</b>	<b>325 506</b>	<b>325 506</b>	<b>281 791</b>
Accounts Payable	6 548	3 326	4 945	4 945	2 794
Other Liabilities	56 028	28 116	30 610	30 610	16 576
<b>Total Liabilities</b>	<b>62 575</b>	<b>31 441</b>	<b>35 555</b>	<b>35 555</b>	<b>19 370</b>
Common stock	2 339	2 339	2 057	2 057	1 985
Additional paid-in-Capital	444 116	441 022	229 990	229 990	205 238
Retained earnings	53 328	64 629	57 904	57 904	55 197
<b>Total Equity</b>	<b>499 782</b>	<b>507 989</b>	<b>289 951</b>	<b>289 951</b>	<b>262 420</b>
<b>Total Liabilities and Equity</b>	<b>562 358</b>	<b>539 430</b>	<b>325 506</b>	<b>325 506</b>	<b>281 790</b>

<b>EQUITY STATEMENT</b>	<b>Q4 2006</b>	<b>Q3 2006</b>	<b>FY 2006</b>	<b>FY 2005</b>	<b>FY 2004</b>
Opening balance	507 988	507 657	289 950	262 420	79 977
Net profit/(loss)	(12 842)	(2 147)	(18 288)	2 799	57 531
Equity share issue	4 197	2 350	227 715	24 823	124 918
Other	439	129	405	(92)	(6)
Closing Balance	499 782	507 988	499 782	289 950	262 420



## CONSOLIDATED BALANCE SHEET AND CASH FLOW STATEMENT

(In thousands of NOK, except per share amounts)

(Unaudited)

CASH FLOW STATEMENT	Q4 2006	Q3 2006	FY 2006	FY 2005	FY 2004
<b>Cash flow from operating activities</b>					
Profit/loss before taxes	(12 626)	(1 385)	(18 596)	4 618	81 885
Taxes paid	(3 353)	(1 159)	(5 654)	(878)	(678)
Depreciation expense	1 395	1 145	4 364	2 055	1 184
Changes in accounts receivable *)	(6 263)	(13 912)	(16 844)	(6 174)	4 540
Changes in accounts payable	3 222	145	1 490	2 264	823
Changes in other liabilities, net	26 704	(26 359)	29 686	(40 362)	6 215
Share-based remuneration	1 103	1 465	5 453	2 995	3 583
Conversion discrepancy	(179)	85	(9)	(45)	0
<b>Net cash flow from operating activities</b>	<b>10 004</b>	<b>(39 973)</b>	<b>(109)</b>	<b>(35 527)</b>	<b>97 552</b>
<b>Cash flow from investment activities</b>					
Acquisition of tangible fixed assets	(4 583)	(1 785)	(13 694)	(9 034)	(2 041)
<b>Net cash flow from investment activities</b>	<b>(4 583)</b>	<b>(1 785)</b>	<b>(13 694)</b>	<b>(9 034)</b>	<b>(2 041)</b>
<b>Cash flow from financing activities</b>					
Proceeds from exercise of stock options, warrants	3 095	1 013	18 124	21 812	5 574
Proceeds of Share Issues, net			201 650		111 802
<b>Net cash flow from financing activities</b>	<b>3 095</b>	<b>1 013</b>	<b>219 774</b>	<b>21 812</b>	<b>117 376</b>
<b>Net change in cash and cash equivalents</b>	<b>8 516</b>	<b>(40 745)</b>	<b>205 971</b>	<b>(22 749)</b>	<b>212 887</b>
Cash and cash equivalents **)	415 982	456 727	218 527	241 275	28 388
<b>Cash and cash equivalents</b>	<b>424 498</b>	<b>415 982</b>	<b>424 498</b>	<b>218 526</b>	<b>241 275</b>

\*) Changes in unbilled revenue are included in changes in accounts receivable in the cash flow statement.

\*\*) Cash and cash equivalents of NOK 4,261K are restricted assets as of December 31st, 2006. Cash and cash equivalents of NOK 19,604K are restricted assets as of 31 December 2005, and NOK 2,523K are restricted assets as per 31 December 2004.

Note: The 2006 financial figures have been prepared based upon the management's interpretation of the current International Financial Reporting Standards (IFRS).

Due to possible changes in existing standards, new understanding and interpretation of existing standards and potential new standards, the figures may change later.