

Nýherji's Results for First Half 2010

Highlights

- The total income in the first half was ISK 100 million, while for the same period last year the total loss was ISK 71 million.
- The EBITDA in the second quarter was ISK 123 million, but for the same period in 2009 EBITDA was negative by ISK 109 million.
- Product sales in the domestic market in the second quarter were up 30% compared with the same quarter last year.
- Positive EBITDA has been achieved in the operations of foreign subsidiaries, and the outlook in the second half is good.
- Plans call for agreements being concluded in the near future with the company's commercial banks on financial reorganization.

Thordur Sverrisson, CEO:

"The company stayed on plan the first half, and the outlook is good for the second half. Foreign and domestic subsidiaries working in software services made good profit instead of last year's operational loss. Efforts to lower operating costs within the group succeeded, and performance therefore improved. Nýherji has progressed a long way in discussions with the banks on reorganizing the group's finances, which are expected to conclude in the near future."

Operating Results in the First Half of 2010

Key Figures for the first 6 months Amounts in thousands of kronur		
	6 months 2010	6 months 2009
Sold goods and services	7,038,486	7,037,446
Cost of sold goods and services	(3,076,844)	(2,973,927)
Gross profit	3,961,642	4,063,519
Wages and payroll-related expenses	(2,974,987)	(3,164,435)
Operating costs	(979,069)	(1,299,808)
Operating profit (-loss) (EBIT)	15,616	(392,796)
Effect of subsidiary's bankruptcy	246,187	0
Net financial expenses	(77,492)	(332,558)
Profit (loss) before income tax	184,311	(725,354)
Income tax	(1,469)	(68,015)
Profit (loss) for the period	182,842	(793,369)
Items entered directly into equity capital	(82,506)	772,346
Total profit (-loss)	100,336	(71,023)
EBITDA	157,827	(116,730)
EBITDA ratio	2.2%	(1.7%)
Average number of full-time equivalent positions	571	663

The sales of products and services in the first 6 months of 2010 totalled ISK 7038 million, compared with ISK 7037 million for the same period the year before. The revenues in Iceland was ISK 4864 million, and at foreign subsidiaries it was ISK 2174 million.

Wages and payroll-related expenses were ISK 2975 million, as opposed to ISK 3164 million for the same period the year before. Wages for foreign operations decreased by ISK 30 million because of a reduction in the number of employees and exchange-rate changes. The average number of full-time equivalent positions for the first six months of 2010 was 571 but was 663 for the same period the year before. The operating costs were about ISK 979 million but were ISK 1300 million for the same period last year. The operating profit before interest and taxes and depreciation and amortization – EBITDA – was ISK 158 million for the period but was negative by ISK 117 million the year before.

The net financial expenses were ISK 77 million, compared with ISK 333 million for the same period in 2009. The total profit the first 6 months of 2010 was ISK 100 million, while the total loss the first insert 6 months of 2009 was ISK 71 million.

Balance Sheet as of 30.06. 2010 – Key Figures Amounts in thousands of kronur		
	30.06. 2010	31.12. 2009
Fixed assets	5,935,950	6,173,554
Circulating assets	3,308,976	3,421,368
Total assets	9,244,926	9,594,922
Equity capital	1,364,317	1,263,981
Long-term debt	1,095,450	1,526,221

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Short-term debt	6,785,159	6,804,720
Total equity capital and debt	9,244,926	9,594,922

Total assets at the end of the period were ISK 9245 million, compared with ISK 9595 million at year-end 2009. Long-term debt has decreased since year-end from ISK 1526 million to ISK 1095 million. Short-term debt has decreased since year-end from ISK 6805 million to ISK 6785 million. Interest-bearing debt totalled ISK 5224 million but was ISK 5537 million at the start of 2010. The ratio of short-term interest-bearing debt is high since agreements with commercial banks on financial reorganization are not concluded. Equity capital at the end of June 2010 was ISK 1364 million, and the equity ratio is now 14.8% but was 13.2% at the end of 2009/beginning of 2010.

Operating results in Q2 2010

Q2 Summary – Key Figures Amounts in thousands of kronur					
	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009
Sold goods and services	3,529,521	3,508,965	3,993,511	3,301,404	3,479,234
Cost of sold goods and services	(1,575,069)	(1,501,775)	(2,012,073)	(1,369,377)	(1,457,235)
Gross profit	1,954,452	2,007,190	1,981,438	1,932,027	2,021,999
Wages and payroll-related expenses	(1,462,384)	(1,512,639)	(1,559,492)	(1,356,518)	(1,601,522)
Operating costs	(449,871)	(529,198)	(741,244)	(526,670)	(768,794)
Operating profit (-loss) (EBIT)	46,728	(31,112)	(316,285)	52,080	(342,101)
Effect of subsidiary's bankruptcy	246,187	0	0	0	0
Financial income and financial expenses	318	(77,810)	(163,383)	(171,361)	(256,739)
Profit (loss) before income tax	293,233	(108,922)	(479,668)	(119,281)	(598,840)
Income tax	(8,288)	6,819	32,766	(1,700)	(84,431)
Profit (loss) for the period	284,945	(102,103)	(446,902)	(120,981)	(683,271)
Items entered directly into equity capital	(54,173)	(28,333)	(61,059)	14,068	771,134
Total profit (-loss)	230,772	(130,436)	(507,961)	(106,913)	87,863
EBITDA	122,875	34,952	(52,851)	107,374	(108,903)
EBITDA ratio	3.48%	1.00%	(1.32%)	3.30%	(3.13%)
Average number of full-time equivalent positions	558	579	607	631	649

Sales of goods and services in Q2 were ISK 3530 million, compared with ISK 3479 million for the same period in 2009, and sales has therefore increased by 1.4% over Q2 2009.

Wages and payroll-related expenses were ISK 1462 million but were ISK 1602 million for the same period in 2009. The average number of full-time equivalent positions in Q2 was 558 but was 649 at the same time last year.

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Domestic payroll costs have decreased by ISK 58 million since Q2 2009. The wages of employees abroad have decreased by a ISK 82 million because of exchange-rate changes and decrease in the number of full-time equivalent positions between Q2 2009 and Q2 2010.

The operating costs were ISK 450 million in Q2 but were ISK 769 million at the same time in 2009. The operating profit before interest and taxes and depreciation and amortization – EBITDA – was ISK 123 million for the period but was negative by ISK 109 million for the same period in 2009.

Financial income was 0.3 million in Q2, compared with financial expenses of ISK 257 million in Q2 2009. The total profit for the quarter was ISK 231 million, while the total profit in Q2 last year was ISK 88 million.

Gudmar Gudmundsson, Nýherji hf.'s Managing Director – Finance, decided to leave the company and will take over as Managing Director – Finance at VIS Insurance Ltd.

Nýherji's subsidiary Roka ehf. was ruled bankrupt during the period, and all of its assets and liabilities will be transferred out of the group's balance sheet.

Summary of operations

The demand for solutions and equipment increased at the parent corporation Nýherji hf. in Q2. Sales were good for IBM hardware solutions as well as IBM BladeCenter servers and IBM database solutions. There is high demand for computer equipment from Lenovo, for the sale of laptops has increased by more than 60%, relative to Q2 2009. The sales for APC equipment for data centre rooms have been fair.

Sales for Sense ehf., which specializes in audiovisual solutions, were as planned. There was pretty good demand for Canon and Sony cameras and for televisions from Sony. The project status for audiovisual solutions for companies and institutions is acceptable, and the company has done such projects in Norway.

The performance of Skyggfir ehf., the group's company for operations and hosting, fell short of plans in Q2. Several new service and operating agreements were entered into with new and old customers. A number of companies have also transferred their computer operations to hosting at Skyggfir. For a decade the company has seen to the hosting and operation of Icelandair Group's computer systems, and this quarter a new three-year agreement was signed for these services.

The domestic software unit of the Nýherji Group has managed to adjust operations to new market conditions. TM Software ehf. and EMR ehf. have achieved positive EBITDA in recent quarters, and both companies' operations are on plan.

Profit at Applicon ehf., which specializes in business solutions, fell below expectations in Q2 because of its project status at the beginning of the period. It is anticipated that more projects abroad will improve the company's performance in the second half.

Vigor ehf.'s operations in the second quarter were heavy going, but measures have been initiated to rebalance the company's operations. Vigor's main mission is software services for business, payroll and energy systems, as well as custom solutions for various companies, such as payment transfer, insurance operations and energy distribution.

The outlook is brighter on the Danish market, and the better project status for Nýherji's subsidiaries there has ensured positive turnaround of their operations. In the second quarter Applicon A/S in Denmark signed an agreement on introducing SAP-business systems for hospitals and other healthcare institutions in the administrative district of Region Hovedstaden in Copenhagen and North Seeland. Applicon is a collaborator with Siemens IT Solutions on this project; Applicon's share is about ISK 1.8 billion over a three-year period. This involves the biggest agreement that the Applicon companies have made to date. This agreement, along with other signed agreements, ensures positive performance the next several quarters. Applicon Solutions A/S in Denmark has more heavily emphasized the United States market for sales of the access control system APM for SAP business software. In this regard agreements with the companies Celanese, Mercedes Benz and Xerox can be mentioned.

The performance of Dansupport A/S's operations was positive and exceeded plan in Q1, and the company's project status is acceptable. Dansupport has increasingly emphasized services for utilities and comparable medium-sized companies.

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The results of Applicon Sweden are in accordance with expectations, and it has continued growing. New agreements were signed with SEB, Nordea, Brummer & Partners and Volvo. The outlook next quarter is good.

Applicon is also working on projects outside the Nordic countries, such as for SAP at the British bank Nationwide, where six Icelandic consultants from Applicon are usually working on developing the next generation of SAP business systems.

Outlook

Nýherji's domestic operations have produced positive and growing EBITDA for four consecutive quarters. EBITDA from foreign operations was positive in Q2 after deficit operations in several previous quarters. The company's plans call for performance in Q3 and Q4 to improve over what it was in Q2.

Financial Calendar for 2010:

Planned publication of interim results in 2010

22 October	Nine-month results
28 January 2011	Annual results

Approved interim financial statement

The interim financial statement for Q2 2010 was approved at a meeting of the Board of Directors of Nýherji hf. on 23 July 2010. The interim results of Nýherji hf. are prepared in accordance with International Financial Reporting Standards (IFRS). The interim results have neither been audited nor checked by the company's auditors.

Further information

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Nýherji hf.

Nýherji hf. creates added value for its customers by applying the expertise of its employees in IT, corporate operations and client needs. The company offers leading-edge consultancy and professional IT services, together with high quality computer, office and software solutions and dependable technical and operating services. The companies in operations in the Nýherji Group number 18 in Iceland and abroad, and the total number of full-time equivalent positions is 554. Nýherji hf.'s shares are registered on NASDAQ OMX Iceland hf. (Iceland Stock Exchange).

Nýherji's Board of Directors: Benedikt Jóhannesson, chairman, Árni Vilhjálmsson and Guðmundur Jóh. Jónsson. Thordur Sverrisson is CEO of Nýherji.