

## Nýherji's Performance in the First Half of 2009

### H1 2009 highlights

- Final profit in H1 amounted to ISK 90 million
- Substantial drop in software development and consultancy projects in Iceland
- Operations of foreign subsidiaries generally in line with forecasts
- Revaluation of asset items affects final profit for the period

### Thordur Sverrisson, CEO:

"Nýherji's performance fell short of expectations in the first half of 2009, with the contraction in domestic demand greater than anticipated. Sales of software development and consultancy services, in particular, have fallen sharply. On the other hand, sales in certain product classes, such as technical equipment for the consumer market and operating supplies, have exceeded forecasts.

Operations of Nýherji's foreign subsidiaries are generally in line with forecasts. Despite the economic recession in Denmark and Sweden, the project pipeline of Applicon companies in these countries is good. They have renewed contracts with leading customers as well as adding new projects. The activities of these companies is important for Nýherji hf. due to the economic and exchange rate situation in Iceland, since their income comprises around one-third of total group revenue, a more significant contribution than often before.

Final profit of Nýherji hf. in the first half of this year amounted to ISK 90 million, as revaluation of asset items had a major impact on performance for the period."

## Operating results in H1 2009

6M results - Key Figures (all amounts ISK thousands)		
	H1 2009	H1 2008
Sales of goods and services	7,037,446	7,254,904
Cost of goods and services sold	(2,973,927)	(3,227,448)
<b>Gross profit</b>	<b>4,063,519</b>	<b>4,027,456</b>
Salaries and related expense	(3,164,435)	(2,919,055)
Operating expense	(1,299,808)	(954,499)
<b>Profit from operations (EBIT)</b>	<b>(392,796)</b>	<b>163,640</b>
Net financial expense	(332,558)	(668,880)
<b>Pre-tax profit (loss) (EBT)</b>	<b>(725,354)</b>	<b>(505,240)</b>
Income tax	(68,015)	72,920
<b>Profit (loss) for the period</b>	<b>(793,369)</b>	<b>(432,320)</b>
EBITDA	(116,730)	268,371
EBITDA ratio	(1.7%)	3.8%
Operating items recognised to equity	883,862	(134,560)
Final profit	90,493	(297,760)
Avg. no. of full-time equiv. positions	662	755

Sales of goods and services amounted to ISK 7,037 million (m) in H1 2009, compared to ISK 7,255m in H1 of the previous year, or a YoY contraction in turnover of 3%. Income from activities in Iceland amounted to ISK 4,775m and income from foreign subsidiaries ISK 2,262m.

Salaries and related expenses were ISK 3,164m, compared to ISK 2,919m for the same period the previous year. Due to exchange rate movements, salaries of foreign employees have risen by 48% in ISK terms over those of H1 2008, or by ISK 444m. The average number of full-time equivalent positions in the first 6M of 2009 was 662, compared to 755 during the same period of 2008. Operating expense was ISK 1,300m, compared to ISK 954m in H1 2008. EBITDA in H1 2009 was negative by ISK 117m, compared to a positive figure of ISK 268m in H1 2008.

Net financial cost was ISK 333m, compared to ISK 669m in the first half of 2008. Loss on the period was ISK 793m compared to a loss of ISK 432m during the first 6M of 2008. Final profit amounted to ISK 90m while total loss in H1 2008 was ISK 298m.

<b>Balance sheet as of 30 June 2009 – Key figures (all amounts ISK thousands)</b>		
	<b>30 June 2009</b>	<b>31 Dec. 2008</b>
Non-current assets	6,325,290	5,577,424
Current assets	3,847,956	4,375,010
<b>Total assets</b>	<b>10,173,246</b>	<b>9,952,434</b>
Equity	2,050,400	1,963,966
Non-current liabilities	2,746,255	2,669,106
Current liabilities	5,376,591	5,319,362
<b>Total liabilities and equity</b>	<b>10,173,246</b>	<b>9,952,434</b>

At the end of the period total assets amounted to ISK 10,173m, compared to ISK 9,952m at year-end 2008. Non-current liabilities have increased from ISK 2,669m to ISK 2,746 since year-end 2008. Current liabilities have increased from ISK 5,319m to ISK 5,377 since year-end 2008. Equity amounted to ISK 2,050m at the end of June and the equity ratio was 20.2% compared to 19.7% at the end of last year.

In Q2 several asset items on the group's balance sheet were revalued. Real estate and furnishings owned by the company are now recognised at ISK 1,717m. Furthermore, goodwill arising from assets in subsidiaries was reduced by ISK 180m and a deferred tax credit written down by ISK 150m, for a total of ISK 330m, which explains the increase in write-offs and higher operating loss on the quarter.

## Operating Results in Q2 2009

Quarterly results - Key Figures (all amounts ISK thousands)					
	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Sales of goods and services	3,479,234	3,558,212	3,993,762	3,663,945	3,828,400
Cost of goods and services sold	(1,457,235)	(1,516,692)	(1,779,720)	(1,813,029)	(1,67,180)
<b>Gross profit</b>	<b>2,021,999</b>	<b>2,041,520</b>	<b>2,214,042</b>	<b>1,850,916</b>	<b>2,171,220</b>
Salaries and related expense	(1,601,522)	(1,562,913)	(1,607,849)	(1,425,538)	(1,550,423)
Operating expense	(768,794)	(531,014)	(789,037)	(360,9623)	(566,946)
<b>Profit from operations (EBIT)</b>	<b>(342,101)</b>	<b>(50,695)</b>	<b>(174,562)</b>	<b>69,652</b>	<b>63,589</b>
Net financial expense	(256,739)	(75,819)	(421,875)	(389,414)	(155,031)
<b>Pre-tax loss</b>	<b>(598,840)</b>	<b>(126,514)</b>	<b>(596,437)</b>	<b>(319,762)</b>	<b>(91,442)</b>
Income tax	(84,431)	16,416	89,577	57,930	519
<b>Net profit for the period</b>	<b>(683,271)</b>	<b>(110,098)</b>	<b>(506,860)</b>	<b>(261,832)</b>	<b>(90,923)</b>
EBITDA	(108,903)	(7,827)	(84,260)	124,956	123,080
EBITDA ratio	(3.13%)	(0.22%)	(2.1%)	3.4%	3.3%
Operating items recognised in equity	771,134	112,728	246,563	61,004	2,011
Final profit	87,863	2,630	(260,297)	(200,828)	(88,912)
Avg. no. of full-time equiv. positions	649	667	701	737	755

Sales of goods and services amounted to ISK 3,479m in Q2 2009, compared to ISK 3,828m during the same quarter of the previous year, or a YoY drop of 9% for the quarter.

Salaries and related expenses were ISK 1,602m, compared to ISK 1,550m for the same period the previous year. The total number of full-time equivalent positions was 644 at the end of Q2 compared to 755 for the same period the previous year. Due to exchange rate movements, salaries of foreign employees have risen by 44% in ISK terms over those of Q2 2008, or by ISK 223m.

Operating costs totalled ISK 769m in Q2 2009, compared to ISK 567m in the same quarter of 2008. EBITDA was negative by ISK 109m during the quarter, compared to a positive figure of ISK 123m in Q2 2008.

Net financial cost was ISK 257m, compared to ISK 155m in the second quarter of 2008. Final profit for the quarter was ISK 88m, whereas in Q2 2008 the final loss amounted to ISK 89m.

## Business overview

Sales of computers and technical equipment by Nýherji hf., the parent company, are roughly in line with forecasts. Sales of operating supplies are above expectations, while demand for communications and network equipment and office equipment has been lower than anticipated.

The income of Skyggnir ehf., the group's technical services and hosting company, fell somewhat short of forecast. This can be attributed in part to fewer projects involving installation of new technical equipment and postponement of service projects by customers. During the period Skyggnir signed several new specialist and managed service contracts to ensure more cost-efficient operation of clients' IT systems. Regular contract income therefore was in line with estimates and comprised around three-quarters of the company's total revenue.

Sense ehf. performed acceptably and above estimates at the end of the quarter, primarily due to strong sales of cameras and technical equipment for the consumer market. Larger projects in audio and visual solutions are fewer than previously, but the project pipeline ahead is acceptable.

The very extensive downturn and stagnation which has gripped the Icelandic economy has resulted in especially difficult conditions for the operation of software and consultancy companies. Although many customers were intending to undertake various projects, the uncertain economic situation and limited access to financing means decisions have been postponed, resulting in a sharp contraction in projects for software specialists and consultants.

## Nýherji's Results for the First Half of 2009

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This contraction has hurt the operations of TM Software ehf., reducing hours of invoiced labour time by several dozen percent and resulting in an operating loss. To meet this contraction, TM's management and experts have managed to acquire further software projects abroad, which now comprise over 20% of the company's income. Operations in H1 2009 were acceptable at EMR ehf., TM Software's subsidiary specialising in healthcare-related IT. EMR's project pipeline is good and it has engaged additional employees in response to increased demand for the company's services.

Applicon ehf. operated at a loss in Q2, like TM Software, due to a large scale drop in its projects in Iceland. Major changes were made to the activities of Applicon ehf. during the quarter, including cost-cutting measures and increasing emphasis on sales of projects abroad. Icelandic experts of Applicon ehf. currently work in the Netherlands, the UK and Nordic countries and income from services abroad has grown steadily.

The operations of Vigor ehf., Applicon's subsidiary handling the operations and service of business software used by most of the country's major energy companies, are in balance.

Following the banks' collapse, business consulting companies have grown in number, increasing competition in the field while at the same time specialist projects have declined in number. These developments have meant an operating loss at ParX ehf. which has responded to the altered situation by reducing its operating expenses, which should deliver better results in the latter half of this year.

Activities at Applicon A/S in Denmark are on target, although the Danish economic situation is more difficult than often before. Applicon A/S has concluded new contracts for coming quarters with several of its largest clients, such as Dong Energy A/S, a leading Danish energy company. The company has a good project pipeline for the latter half of this year and the outlook is for a very credible performance, as in preceding years.

Operations at Applicon AB in Sweden were in profit in Q2 and in line with expectations. The company has continued to build up its activities, for instance, by concluding a contract with Ålandsbanken, which recently took over Kaupthing's banking operations in Sweden, to operate the bank's SAP computer system. At the same time, Applicon hired six of the bank's IT department employees. Applicon works closely with Sweden's largest banks, including Nordea, Swedbank and Handelsbanken, in setting up and servicing software systems. Despite some downturn in the Swedish economy, Applicon's prospects are good.

The net result of Dansupport A/S in Denmark was negative reflecting the difficult situation of Danish IT companies in the recession. It has taken longer than planned to get Dansupport's operations back into balance, but it is hoped that this will be accomplished in the latter half of 2009.

### Operating Environment

At present, some ten months after the economic collapse in Iceland, contraction continues in the domestic market and high uncertainty prevails as to when and under what conditions companies will regain their footing and a more normal operating environment develop. The lengthy delay in recapitalising the banks and returning them to normal operations, as well as in reaching settlements with neighbouring countries and foreign creditors on major issues of contention, is causing continuing damage to business and industry. This situation delays still further the return of business operations and company performance to better balance. At Nýherji and many other companies, these difficulties are reflected, for instance in the following:

- A sudden and pronounced drop in projects, for instance, in the field of software development and consultancy, has meant a lack of work for specialists for which, due to the uncertainty, no end is in sight.
- If a turnaround is not effected soon, there is a real danger that the investment in innovation and development undertaken in past quarters in software and technology will dissipate and could even be lost in Iceland.
- Well educated and knowledgeable employees have begun transferring to jobs abroad; around 3% of employees in the Nýherji group have already moved or are moving to work at IT technology companies abroad, including Nýherji's subsidiaries.
- Due to the banks' uncertain situation and their weak capital position, companies have difficulty in financing investment in operational restructuring which delays possibilities to improve their performance.
- In various sectors, such as IT, the state banks and creditors have taken over companies' operations and provide stiff competition with other private sector companies which have not become insolvent.

- State owned companies and institutions have slashed their purchasing of expert services in various areas and now have in-house employees look after these tasks, with the result that layoffs are avoided in these companies but appear at private sector companies.

Iceland has plenty of opportunities for projects abroad, as well as the potential to attract investment from foreign parties in the country. It is urgent that the key tasks of reviving the banks and achieving a settlement with our neighbours be concluded, so that companies can regain their footing and a turnaround take place in business and industry.

## Outlook

The operating environment for Icelandic companies will continue to be challenging and both Denmark and Sweden are feeling the effects of economic recession. This means continuing uncertainty regarding Nýherji's domestic activities, while the prospects for performance of its foreign subsidiaries are acceptable.

## 2009 financial calendar

Scheduled presentation of quarterly results in 2009

3<sup>rd</sup> quarter: 23 October  
4<sup>th</sup> quarter: 29 January

## Approval of quarterly results

Nýherji's results for Q2 2009 were adopted at a meeting of the company's Board of Directors on 24 July 2009. The quarterly financial statements of Nýherji hf. are prepared in accordance with International Financial Reporting Standards (IFRS). Translation from foreign subsidiaries has been recognised separately in the summary of overall performance of the quarterly results, in accordance with IFRS provisions.

## Further information

For further information contact:

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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 Nýherji Group includes 20 companies with operations in Iceland and abroad, with a total of 644 full-time equivalent employee positions. Shares in Nýherji hf. are listed on the OMX Nordic Exchange in Iceland.

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