

Nýherji hf.
Condensed Consolidated Interim
Financial Statements
30 September 2010
ISK

Nýherji hf.
Borgartún 37
105 Reykavík

Reg. no. 530292-2079

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Endorsement and Statement by the Board of Directors and the Managing Director

The consolidated interim financial statements for the first nine months have been prepared in accordance with International Financial Reporting Standard IAS 34. The statements include the consolidated accounts of Nýherji hf. and its subsidiaries. The Group consists of 18 companies.

According to the statement of comprehensive income, profit for the period amounted to ISK 210 million but when foreign currency translation differences of foreign operations is taken into consideration, the Group's comprehensive income amounted to ISK 132 million. Sales of goods and services amounted to ISK 10,273 million during the period. The Group's equity at the end of the period amounted to ISK 2,223 million according to the statement of financial position.

The Board of Directors of Nýherji hf. exercised in September the authority of Annual General Meeting to increase the Company's share capital by ISK 120 million in nominal value. The Company has concluded agreements with investors on the purchase of this share capital at the rate of 7.0 and the sales value thus amounts to ISK 840 million. At the end of September share capital in the amount of ISK 28 million in nominal value was paid and registered. Share capital in the amount of ISK 92 million in nominal value will be paid and registered in December and unpaid share capital in the amount of ISK 644 million is capitalised in the statement of financial balance sheet as at 30 September 2010. Following the increase, share capital according to the Company's Articles of Association amounted to ISK 400 million in nominal value but the Company's treasury shares amounted to ISK 5 million at the end of September.

Nýherji hf. has concluded agreements with Arion Bank hf. on the one hand and with Íslandsbanki hf. on the other on the restructuring of the Company's long term liabilities, where repayment period will be extended, a part of the loans will be converted from foreign currencies to Icelandic kronas and their principal will be decreased. In order to decrease the Company's liabilities even further Nýherji hf. has concluded an agreement on the sale of the Company's real estate at Borgartún 37. The sales value of the real estate will be ISK 1,650 million. The decrease of debts and sale of Borgartún 37 is estimated to improve the Company's return by ISK 150 million in the fourth quarter.

Following these measures, the Company's equity will increase by ISK 1,000 million and the financial standing will become strong again. It is estimated that the Company's equity ratio will be over 30% at year end. Furthermore, the Company's liquidity balance and current ratio improve. Loans and borrowings will decrease by ISK 2,600 million following the agreements. Effective repayment time on loans will be from seven to fifteen years.

In preparing the interim financial statements consideration has been taken for changed repayment time of the Company's debts with Arion Bank hf., and the share capital increase has been recognised in the statement of financial position. The sale and delivery of the real estate is assumed to be concluded in the fourth quarter. At the same time, an rental agreement will be made on Nýherji's rent of the property for the next 15 years. Furthermore, principal of loans will be adjusted. Agreements with the banks will not affect the Company's return in the period ended 30 September 2010.

Endorsement and Statement by the Board of Directors and the Managing Director, contd.:

Statement by the Board of Directors and Managing Director

According to our best knowledge it is our opinion that the consolidated interim financial statements give a true and fair view of the consolidated interim financial performance of the Group for the period 1 January to 30 September 2010, its assets, liabilities and consolidated financial position as at 30 September 2010 and its consolidated cash flows for the period 1 January to 30 September 2010.

Further, in our opinion the consolidated interim financial statements and the Endorsement by the Board of Directors and the Managing Director gives a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the Managing Director have today discussed the consolidated interim financial statements of Nýherji hf. for the period 1 January to 30 September 2010 and confirm them by means of their signatures.

Reykjavík, 22 October 2010

The Board of Directors:

Benedikt Jóhannesson

Árni Vilhjálmsson

Guðmundur J. Jónsson

Managing Director:

Þórður Sverrisson

Independent Auditor's Report

To the Board of Directors Nýherji hf.

We have reviewed the accompanying condensed consolidated statement of financial position of Nýherji hf. as of 30 September 2010 and the related condensed consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated cash flows statement for the period 1 January to 30 September 2010, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review. We have not reviewed comparative figures in the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flows statement and notes.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Reykjavík, 14 December 2010

KPMG hf.

Jón S. Helgason

Consolidated Statement of Comprehensive Income

1 January to 30 September 2010

	Notes	Q3		Q1-3	
		2010 1.7.-30.9.	2009 1.7.-30.9.	2010 1.1.-30.9.	2009 1.1.-30.9.
Sales of goods and services	5	3.234.284	3.301.404	10.272.770	10.338.850
Cost of goods sold and cost of sold services		(1.521.173)	(1.369.377)	(4.598.017)	(4.343.304)
Gross profit		1.713.111	1.932.027	5.674.753	5.995.546
Other income		4.187	3.241	12.217	11.169
Salary and salary-related expenses		(1.187.414)	(1.356.518)	(4.162.401)	(4.520.953)
Other operating expenses		(360.759)	(471.376)	(1.197.617)	(1.495.118)
Depreciation		(73.299)	(55.294)	(215.510)	(151.533)
Impairment losses on goodwill		0	0	0	(179.827)
Operating profit (loss)		95.826	52.080	111.442	(340.716)
Effect of bankrupt subsidiary	9	0	0	246.187	0
Finance income		18.045	5.004	185.601	24.206
Finance expenses		(91.285)	(176.365)	(336.333)	(528.125)
Net finance expense	6	(73.240)	(171.361)	(150.732)	(503.919)
Profit (loss) before income tax		22.586	(119.281)	206.897	(844.635)
Income tax		4.183	(1.700)	2.714	(69.715)
Profit (loss) for the period		26.769	(120.981)	209.611	(914.350)
Other comprehensive income:					
Foreign currency translation differences for foreign operations		4.836	14.068	(77.670)	44.747
Revaluation of buildings		0	0	0	813.726
Income tax on revaluation of buildings		0	0	0	(122.059)
Other comprehensive income for the period		4.836	14.068	(77.670)	736.414
Total comprehensive income (loss) for the period		31.605	(106.913)	131.941	(177.936)
Profit (loss) attributable to:					
Equity holders of the Parent Company		24.038	(119.495)	206.205	(910.880)
Non-controlling interest		2.731	(1.486)	3.406	(3.470)
Profit (loss) for the period		26.769	(120.981)	209.611	(914.350)
Total comprehensive income (loss) attributable to:					
Equity holders of the Parent Company		27.578	(105.427)	129.740	(174.466)
Non-controlling interest		4.027	(1.486)	2.201	(3.470)
Total comprehensive income (loss) for the period		31.605	(106.913)	131.941	(177.936)
Earnings (loss) per share:					
Basic earnings (loss) per share (ISK)		0,10	(0,44)	0,76	(3,32)
Diluted earnings (loss) per share (ISK)		0,10	(0,44)	0,76	(3,31)

Consolidated Statement of Financial Position

as at 30 September 2010

	Notes	30.9.2010	31.12.2009
Assets:			
Property and equipment		2.107.477	2.102.780
Intangible assets		3.714.796	3.958.241
Deferred tax assets		84.860	94.172
Long-term notes		16.739	18.361
Total non-current assets		<u>5.923.872</u>	<u>6.173.554</u>
Inventories		648.399	630.646
Trade and other receivables		2.642.466	2.405.527
Unpaid share capital	7	644.000	0
Cash and cash equivalents		111.757	385.195
Total current assets		<u>4.046.622</u>	<u>3.421.368</u>
Total assets		<u><u>9.970.494</u></u>	<u><u>9.594.922</u></u>
Equity:			
Share capital	7	394.956	274.956
Share premium		1.790.525	1.083.645
Reserves	8	1.055.936	1.139.073
Accumulated deficit		(1.032.136)	(1.245.013)
Total equity attributable to equity holders of the Parent Company		<u>2.209.281</u>	<u>1.252.661</u>
Non-controlling interest		13.521	11.320
Total equity		<u>2.222.802</u>	<u>1.263.981</u>
Liabilities:			
Loans and borrowings		2.562.044	1.523.003
Deferred tax liabilities		2.167	3.218
Total non-current liabilities		<u>2.564.211</u>	<u>1.526.221</u>
Loans and borrowings		2.538.171	4.014.101
Trade and other payables		2.645.310	2.790.619
Total current liabilities		<u>5.183.481</u>	<u>6.804.720</u>
Total liabilities		<u>7.747.692</u>	<u>8.330.941</u>
Total equity and liabilities		<u><u>9.970.494</u></u>	<u><u>9.594.922</u></u>

Consolidated Statement of Changes in Equity

1 January to 30 September 2010

	Share capital	Share premium	Reserves	Accumu- lated deficit	Total equity attributable to equity holders of the Parent Company	Non- control- ling interest	Total equity
1 January - 30 September 2010							
Equity at 1 January 2010	274.956	1.083.645	1.139.073	(1.245.013)	1.252.661	11.320	1.263.981
Total comprehensive							
income for the period			(76.465)	206.205	129.740	2.201	131.941
Revaluation transferred			(6.672)	6.672	0		0
Issue of new shares	120.000	706.880			826.880		826.880
Equity at 30 September 2010	<u>394.956</u>	<u>1.790.525</u>	<u>1.055.936</u>	<u>(1.032.136)</u>	<u>2.209.281</u>	<u>13.521</u>	<u>2.222.802</u>

1 January - 30 September 2009

Equity at 1 January 2009	275.706	1.097.145	464.330	104.820	1.942.001	21.965	1.963.966
Total comprehensive							
loss for the period			736.414	(910.880)	(174.466)	(3.470)	(177.936)
Revaluation transferred			(5.424)	5.424	0		0
Stock options cost reversed ...			9.450		9.450		9.450
Own shares acquired	(750)	(13.500)			(14.250)		(14.250)
Purchase of							
non-controlling interest						(5.899)	(5.899)
Own shares with put							
option not exercised			9.790		9.790		9.790
Equity at 30 September 2009	<u>274.956</u>	<u>1.083.645</u>	<u>1.214.560</u>	<u>(800.636)</u>	<u>1.772.525</u>	<u>12.596</u>	<u>1.785.121</u>

Consolidated Statement of Cash Flows

1 January to 30 September 2010

	Notes	2010 1.1.-30.9.	2009 1.1.-30.9.
Cash flows from operating activities:			
Profit (loss) for the period		209.611	(914.350)
Adjustment for:			
Depreciation		215.510	151.533
Impairment losses on goodwill		0	179.827
Effect of bankrupt subsidiary	9	(246.187)	0
Net finance expense		150.732	503.919
Income tax		(2.714)	69.715
		<u>326.952</u>	<u>(9.356)</u>
Changes in operating assets and liabilities:			
Inventories, (increase) decrease		(21.641)	4.305
Trade and other receivables, (increase) decrease		(355.314)	204.974
Trade and other payables, decrease		(48.699)	(283.462)
Changes in operating assets and liabilities		<u>(425.654)</u>	<u>(74.183)</u>
Interest income received		7.374	24.206
Interest expenses paid		(125.346)	(209.453)
Net cash used in operating activities		<u>(216.674)</u>	<u>(268.786)</u>
Cash flows from investing activities:			
Investment in property and equipment		(194.030)	(96.317)
Cash and cash equivalents of bankrupted subsidiary		(5.088)	0
Long-term notes, change		1.622	18.162
Net cash used in investing activities		<u>(197.496)</u>	<u>(78.155)</u>
Cash flows from financing activities:			
Proceeds from issue of new share capital		196.000	0
Repurchase of own shares		0	(14.250)
Repayment of long-term borrowings		(16.137)	(69.267)
Loans and borrowings, change		(17.337)	249.523
Net cash provided by financing activities		<u>162.526</u>	<u>166.006</u>
Decrease in cash and cash equivalents		(251.644)	(180.935)
Effect of exchange rate fluctuation on cash held		(21.794)	15.672
Cash and cash equivalents at beginning of the year		385.195	467.690
Cash and cash equivalents at the end of the period		<u>111.757</u>	<u>302.427</u>
Investing and financing activities not affecting cash flows:			
Issue of new share capital		644.000	0
Unpaid share capital		(644.000)	0
Assets other than cash and cash equivalents of bankrupt subsidiary		(6.119)	0
Liabilities of bankrupt subsidiary		257.394	0

Notes

1. Reporting entity

Nýherji hf. ("the Company") is a limited company domiciled in Iceland. The address of the Company's registered office is Borgartún 37, Reykjavík. The consolidated interim financial statements include the interim financial statements of the Company and its subsidiaries, together referred to as the "Group" and individually as "Group entities".

The Company's aim is to provide its customers complete solutions in the field of information technology with developing software, providing hardware and software, office equipment and technical services.

2. Statement of compliance

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34. The condensed interim financial statements of Nýherji hf. do not include all of the information required in complete annual financial statements and should be read together with the Group's 2009 annual financial statements.

The Company's Board of Directors approved its interim financial statements on 22 October 2010.

3. Significant accounting policies

The same accounting policies are followed in preparing the interim financial statements as were used in preparing the Group's annual financial statements for 2009. The annual financial statements can be obtained from the Company or its website, www.nyherji.is, and on the website of OMX Nordic Exchange in Iceland, www.omxnordicexchange.com.

The interim financial statements are prepared in Icelandic krónur (ISK), which is the Company's functional currency. All financial information presented has been rounded to the nearest thousand. The statements have been prepared on the historical cost basis except financial instruments at fair value through profit or loss and derivative financial instruments are measured at fair value. The Company's buildings are as of 1 April 2009 recorded at a remeasured value which is the fair value on the day of remeasurement less accumulated depreciation.

4. Estimates and judgements

The preparation of interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

5. Segment reporting

	Goods and related services	Software, related services, consultancy	Eliminations	Consolidated
1 January - 30 September 2010				
Sales of goods and services	7.097.230	3.692.877	(517.337)	10.272.770
Segment result (EBITDA)	213.142	129.859	(16.049)	326.952
Depreciation	(167.621)	(47.889)		(215.510)
Effect of bankrupt subsidiary				246.187
Finance income				185.601
Finance expenses				(336.333)
Income tax				2.714
Profit for the period				209.611
Foreign currency translation differences for foreign operations				(77.670)
Total comprehensive income for the period				131.941

Notes, contd.:

5. Segment reporting, contd.:

	Goods and related services	Software, related services, consultancy	Eliminations	Consolidated
1 January - 30 September 2009				
Sales of goods and services	6.815.456	4.103.314	(579.920)	10.338.850
Segment result (EBITDA)	85.285	(119.298)	24.657	(9.356)
Depreciation	(82.630)	(68.903)		(151.533)
Impairment losses on goodwill	(179.827)			(179.827)
Finance income				24.206
Finance expenses				(528.125)
Income tax				(69.715)
Loss for the period				(914.350)
Foreign currency translation differences for foreign operations				44.747
Revaluation of buildings				813.726
Income tax on revaluation of buildings				(122.059)
Total comprehensive loss for the period				(177.936)

6. Finance income and expense

	2010 1.1-30.9.	2009 1.1-30.9.
Finance income are specified as follows		
Interest income	7.374	24.206
Net currency gain	178.227	0
Total financial income	185.601	24.206
Finance expenses are specified as follows		
Interest expense	(336.333)	(334.379)
Net currency loss	0	(193.746)
Total finance expense	(336.333)	(528.125)
Net finance expense	(150.732)	(503.919)

7. Equity

The Board of Directors of Nýherji hf. exercised in September the authority of Annual General Meeting to increase the Company's share capital by ISK 120 million in nominal value. The Company has concluded agreements with investors on the purchase of this share capital at the rate of 7.0 and the sales value thus amounts to ISK 840 million. At the end of September share capital in the amount of ISK 28 million in nominal value was paid and registered. Share capital in the amount of ISK 92 million in nominal value will be paid and registered in December and a unpaid share capital in the amount of ISK 644 million is capitalised in the statement of financial position as at 30 September 2010. Following the increase, share capital according to the Company's Articles of Association amounted to ISK 400 million in nominal value. The Company's treasury shares amounted to ISK 5 million at end of September. Cost of the share capital increase, less income tax effect, is deducted from share premium, or the total amount of ISK 13 million.

Notes, contd.:

8. Reserves are specified as follows:

	Reserve for own shares sold with put options	Share options reserve	Translation reserve	Revaluation reserve	Total
Balance at 1.1.2009	(9.790)	32.073	442.047	0	464.330
Change during the period	9.790	9.450	44.747	686.243	750.230
Balance at 30.9.2009	0	41.523	486.794	686.243	1.214.560
Balance at 1.1.2010	0	28.344	450.147	660.582	1.139.073
Change during the period	0	0	(76.465)	(6.672)	(83.137)
Balance at 30.9.2010	0	28.344	373.682	653.910	1.055.936

9. Bankruptcy of a subsidiary

In March 2010, the subsidiary of Nýherji hf., Roka ehf., was declared bankrupt in the District Court of Reykjavík. The ruling was appealed to the Supreme Court, which confirmed the ruling in May this year.

The statement of comprehensive income of Roka ehf. for the first quarter of the year 2010 is a part of the statement of comprehensive income of the Group. Nýherji hf. has since the acquisition of Roka ehf. in the year 2008, recognised in the consolidated financial statement a share in the company's return and equity, which was negative when the company was declared bankrupt. As the Group no longer controls Roka ehf. all of the company's assets and liabilities are eliminated from the consolidated financial statements of Nýherji hf. as at 31 March 2010. The amount of ISK 246 million is thus recognised in the Group's statement of profit or loss under a specific item. Nýherji has declared claims on the bankruptcy estate of Roka ehf., but neither those claims nor possible claims on the Group are recognised in the interim financial statements.

10. Financial ratios

Financial ratios for the consolidated interim financial statements:

	2010 1.1-30.9.	2009 1.1-30.9.
Income statement:		
Inventory turnover - Cost of goods sold / Inventory at end of period	8,6	7,8
Receivables turnover - Receivables at end of period / Sales of goods and services	59	57
Salary and salary related expenses / Sales of goods and services	40,5%	43,7%
Other operating expenses / Sales of goods and services	11,7%	14,5%
EBITDA / Sales of goods and services	3,2%	(0,1%)
Profit (loss) for the period / Sales of goods and services	2,0%	(8,8%)
	30.9.2010	31.12.2009
Statement of financial position:		
Current ratio*	0,78	0,50
Equity ratio	22,3%	13,2%
Market value of the Company	2.764.692	2.749.560
Change in price per share	(30,0%)	(50,0%)
Price per share	7,00	10,00

* Agreement between the Company and its commercial banks about financial restructuring of the Group will improve the current ratio in the fourth quarter. The maturity of the loans and borrowings will be extended, whereby the current ratio will increase.

Quarterly statements - not reviewed

Quarterly statements

Summary of the Group's results by quarters

	Q1 2010	Q2 2010	Q3 2010	Total
Sales of goods and services	3.508.965	3.529.521	3.234.284	10.272.770
Cost of goods sold and cost of sold services	(1.501.775)	(1.575.069)	(1.521.173)	(4.598.017)
Gross profit	2.007.190	1.954.452	1.713.111	5.674.753
Other income	3.535	4.495	4.187	12.217
Salary and salary-related expenses	(1.512.639)	(1.462.348)	(1.187.414)	(4.162.401)
Other operating expenses	(463.134)	(373.724)	(360.759)	(1.197.617)
Depreciation	(66.064)	(76.147)	(73.299)	(215.510)
Operating (loss) profit	(31.112)	46.728	95.826	111.442
Effects of bankrupt subsidiary.....	0	246.187	0	246.187
Finance income	42.300	125.256	18.045	185.601
Finance expenses	(120.110)	(124.938)	(91.285)	(336.333)
Net finance expense	(77.810)	318	(73.240)	(150.732)
(Loss) profit before income tax	(108.922)	293.233	22.586	206.897
Income tax	6.819	(8.288)	4.183	2.714
(Loss) profit for the period	(102.103)	284.945	26.769	209.611
Other comprehensive income:				
Foreign currency translation differences for foreign operations	(28.333)	(54.173)	4.836	(77.670)
Other comprehensive income for the period	(28.333)	(54.173)	4.836	(77.670)
Total comprehensive income for the period	(130.436)	230.772	31.605	131.941

Quarterly statements - not reviewed, contd.:

Quarterly statements

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Total
Sales of goods and services	3.558.212	3.479.234	3.301.404	3.993.511	14.332.361
Costs of goods sold and cost of sold services	(1.516.692)	(1.457.235)	(1.369.377)	(2.012.073)	(6.355.377)
Gross profit	2.041.520	2.021.999	1.932.027	1.981.438	7.976.984
Other income	1.712	6.216	3.241	3.013	14.182
Salary and salary-related expenses ...	(1.562.913)	(1.601.522)	(1.356.518)	(1.559.492)	(6.080.445)
Other operating expenses	(488.146)	(535.596)	(471.376)	(477.810)	(1.972.928)
Depreciation	(42.868)	(53.371)	(55.294)	(120.980)	(272.513)
Impairment losses on goodwill	0	(179.827)	0	(142.454)	(322.281)
Operating (loss) profit	(50.695)	(342.101)	52.080	(316.285)	(657.001)
Finance income	30.592	(11.390)	5.004	32.365	56.571
Finance expenses	(106.411)	(245.349)	(176.365)	(195.748)	(723.873)
Net finance expense	(75.819)	(256.739)	(171.361)	(163.383)	(667.302)
Loss before income tax	(126.514)	(598.840)	(119.281)	(479.668)	(1.324.303)
Income tax	16.416	(84.431)	(1.700)	32.766	(36.949)
Loss for the period	(110.098)	(683.271)	(120.981)	(446.902)	(1.361.252)
Other comprehensive income:					
Foreign currency translation difference for foreign operations	(48.788)	79.467	14.068	(36.647)	8.100
Revaluation of buildings	0	813.726	0	0	813.726
Income tax on revaluation of buildings	0	(122.059)	0	(24.412)	(146.471)
Other comprehensive income for the period	(48.788)	771.134	14.068	(61.059)	675.355
Total comprehensive (loss) income for the period	(158.886)	87.863	(106.913)	(507.961)	(685.897)