

Kögun ehf.

Condensed Consolidated Interim Financial Statements 1 January - 30 June 2007

Kögun ehf.
Lynghálsi 9
110 Reykjavík

Reg. no. 490389-2619

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Endorsement and signatures of the Board of Directors and the CEO

The consolidated interim financial statements of Kögun ehf. for the period 1 January - 30 June 2007 have been prepared in accordance with International Financial Reporting Standard (IFRS) for Interim Financial Statements (IAS 34). The interim financial statements comprise the condensed consolidated interim financial statements of Kögun ehf. and its subsidiaries.

As of 1 January 2007 Kögun ehf. merged with its subsidiary Kögurnes ehf. As of 1 January 2007 EJS hf.'s subsidiary, Eskill ehf., was moved under direct ownership of Kögun ehf.

According to the income statement, profit for the period amounted to ISK 876 million. According to the balance sheet, equity at the end of the period amounted to ISK 3.352 million, including share capital in the amount of ISK 183 million.

The Board of Directors and the CEO of Kögun ehf. hereby confirm the Company's consolidated interim financial statements for the period 1 January - 30 June 2007 by means of their signatures.

Reykjavík, 30 July 2007.

The Board of Directors:

CEO:

Report on review of interim financial information

To the Board of Directors of Kögun ehf.

Introduction

We have reviewed the accompanying balance sheet of Kögun ehf. as of 30 June 2007 and the related statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting standards as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

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 interim financial information does not give a true and fair view of the financial position of the entity as at 30 June 2007 and of its financial performance and its cash flows for the six month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 30 July 2007.

KPMG hf.

Consolidated income statement for the period 1 January - 30 June 2007

	Note	1.1.-30.6.2007	1.1.-30.6.2006 Restated*
Continuing operations			
Sales		4.328.651	3.299.971
Cost of sales		(3.308.572)	(2.391.663)
Gross profit		<u>1.020.079</u>	<u>908.308</u>
Other income		48.240	0
Sales expenses		(213.261)	(126.943)
Administrative expenses		(516.637)	(463.335)
Results from operating activities		<u>338.421</u>	<u>318.030</u>
Finance income	8	1.169.672	236.152
Finance expenses	8	(427.669)	(1.147.893)
Net finance income (costs)		<u>742.003</u>	<u>(911.741)</u>
Profit (loss) before income tax		1.080.424	(593.711)
Income tax		(204.451)	105.407
Profit (loss) from continuing operations		<u>875.973</u>	<u>(488.304)</u>
Discontinued operations			
Profit from discontinued operations	7	<u>0</u>	<u>94.665</u>
Profit (loss) for the period		<u><u>875.973</u></u>	<u><u>(393.639)</u></u>
Attributable to:			
Equity holders of the parent		875.973	(367.440)
Minority interest		<u>0</u>	<u>(26.199)</u>
Profit (loss) for the period		<u><u>875.973</u></u>	<u><u>(393.639)</u></u>
EBITDA		534.624	436.943
Earnings (loss) per share:			
Basic earnings (loss) per share of ISK 1	10	4,79	(2,05)
Continuing operations:			
Basic earnings (loss) per share of ISK 1	10	4,79	(2,55)

* See discontinued operations (note 7).

Consolidated balance sheet as at 30 June 2007

	Note	30.6.2007	31.12.2006
Assets:			
Operating assets		449.696	467.736
Intangible assets		8.234.041	8.338.969
Investments in other companies		33.739	33.984
Long-term receivables	9	4.314.154	7.419.774
Deferred tax asset			37.693
Total non-current assets		13.031.630	16.298.156
Inventories and work in progress		344.890	245.792
Trade and other receivables		2.665.445	2.932.882
Cash and cash equivalents		681.056	377.935
Total current assets		3.691.391	3.556.609
Total assets		16.723.021	19.854.765
Equity:			
Share capital		183.000	183.000
Share premium		2.248.951	2.248.951
Legal reserve		45.750	45.750
Retained earnings		874.163	0
Total equity		3.351.864	2.477.701
Liabilities:			
Loans and borrowings	11	11.608.099	14.618.927
Deferred income tax liability		97.030	0
Total non-current liabilities		11.705.129	14.618.927
Loans and borrowings	11	161.916	215.624
Trade and other payables		1.504.112	2.542.513
Total current liabilities		1.666.028	2.758.137
Total liabilities		13.371.157	17.377.064
Total equity and liabilities		16.723.021	19.854.765

Consolidated statement of changes in Equity for the period 1 January 2006 - 30 June 2007

	Share capital	Share premium	Legal reserve	Translation reserve	Retained earnings	Total	Minority interest	Total equity
Equity at 1.1.2006	189.829	3.794.090	48.250	(138.141)	1.723.565	5.617.593	712.725	6.330.318
Translation difference 1.1. - 30.9.				188.847		188.847	30.728	219.575
Loss for the period 1.1.-30.9.					(855.977)	(855.977)	(207.720)	(1.063.697)
Total profit and loss for the period 1.1.-30.9.				188.847	(855.977)	(667.130)	(176.992)	(844.122)
Dividends (ISK 0.40 per share)					(77.200)	(77.200)		(77.200)
Own shares, change	3.171	202.598				205.769		205.769
Acquisition of minority interest							316.053	316.053
Minority interest, change					(43.411)	(43.411)	(69.399)	(112.810)
Dividends to minority interest							(11.564)	(11.564)
Equity at 30.9.2006	193.000	3.996.688	48.250	50.706	746.977	5.035.621	770.823	5.806.444
Effects of merger					1.339.973	1.339.973		1.339.973
Effects of division	(10.000)			(6.484)	(3.555.069)	(3.571.553)	(504.926)	(4.076.479)
Equity at 1.10.2006	183.000	3.996.688	48.250	44.222	(1.468.119)	2.804.041	265.897	3.069.938
Profit for the period 1.10.-31.12.					2.032	2.032	79.125	81.157
Acquisition of minority interest					(57.772)	(57.772)	(345.022)	(402.794)
Transferred to retained earnings		(1.477.137)	(2.500)	(44.222)	1.523.859			
Equity at 31.12.2006	183.000	2.519.551	45.750	0	0	2.748.301	0	2.748.301
Equity at 1.1.2007	183.000	2.519.551	45.750	0	0	2.748.301		2.748.301
Changes in estimates of derivatives		(270.600)				(270.600)		(270.600)
Equity at 1.1.2007 restated	183.000	2.248.951	45.750	0	0	2.477.701		2.477.701
Minority interest and other changes					(1.810)	(1.810)		(1.810)
Profit for the period					875.973	875.973		875.973
Equity at 30.6.2007	183.000	2.248.951	45.750	0	874.163	3.351.864		3.351.864

Consolidated statement of cash flows for the period

1 January - 30 June 2007

	Note	1.1.-30.6.2007	1.1.-30.6.2006
Cash flows from operating activities - continuing operations:			
Profit (loss) from continuing operations		875.973	(488.304)
Adjustments for:			
Depreciation and amortisation		196.203	118.913
Net finance (income) costs	8	(742.003)	911.741
Gain on sale of operating assets		(5.051)	0
Income tax		204.451	(105.407)
		529.573	436.943
Change in operational assets and liabilities		(8.390)	(237.356)
		521.183	199.587
Interest received		93.527	94.340
Interest paid		(159.948)	(101.464)
Income tax paid		(16.904)	(24.054)
Net cash from operating activities		437.858	168.409
Cash flows from investing activities - continuing operations:			
Dividends received		0	190.000
Proceeds from sale of operating assets		24.798	0
Aquisition of subsidiaries, net of cash acquired		0	(1.246.628)
Acquisition of operating assets		(87.255)	(111.403)
Acquisition of intangible assets		(4.134)	(15.692)
Aquisition of other investments		(2.601)	0
Change in long-term receivables		121.489	(1.317.920)
Net cash from (used in) investing activities		52.297	(2.501.643)
Cash flows from financing activities - continuing operations:			
Change in own shares		0	95.694
Proceeds from loans and borrowings		0	1.112.102
Repayment of loans and borrowings		(235.625)	(246.403)
Change in current borrowings		48.591	276.924
Dividends paid		0	(77.200)
Net cash (used in) from financing activities		(187.034)	1.161.117
Discontinued operation:			
Net cash used in operating activities		0	(176.657)
Net cash used in investing activities		0	(551.612)
Net cash from financing activities		0	651.788
Net cash used in discontinued operation		0	(76.481)
Net change in cash and cash equivalents		303.121	(1.248.598)
Cash and cash equivalents at 1 January		377.935	2.850.562
Cash and cash equivalents at 30 June		681.056	1.601.964

Consolidated statement of cash flows, contd.:

Investment and financing activities not affecting cash-flow:	1.1.-30.6.2007	1.1.-30.6.2006
Change in operational assets and liabilities	6.561	0
Change in long-term receivables	2.863.672	0
Repayment of loans and borrowings	(2.237.534)	0
Change in current borrowings	(632.699)	0

Notes to the condensed consolidated interim financial statements

1. Reporting entity

Kögun ehf. is a company domiciled in Iceland. The address of the Company's registered office is Lynghóls 9, Reykjavík. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2007 comprise the Company and its subsidiaries (together referred to as the "Group"). Kögun ehf. is a company active in IT service. Kögun ehf. is a subsidiary of Teymi hf.

The consolidated financial statements of the Group as at and for the year ended 31 December 2006 are available upon request from the Company's registered office at Lynghóls 9, Reykjavík, or at www.kogun.is.

2. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2006.

These condensed consolidated interim financial statements were approved by the Board of Directors on 30 July 2007.

3. Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2006.

4. Estimates

The preparation of interim financial statements 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.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2006.

5. Financial risk management

All aspects of the Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2006.

Notes, contd.:

Segment reporting

6. Business segments

Software and related services comprise consultancy services, software development and various related services.

Hardware and related services comprise retail of goods sold, installation, maintenance and various related services.

	Software	Hardware	Eliminations	Consolidated
Results 1 January - 30 June 2007				
Total external revenues	2.497.066	1.831.585		4.328.651
Intersegment revenue	2.919	105.825	(108.744)	0
Total segment revenue	<u>2.499.985</u>	<u>1.937.410</u>	<u>(108.744)</u>	<u>4.328.651</u>
Segment result	<u>269.503</u>	<u>68.918</u>		338.421
Net finance income				742.003
Income tax				(204.451)
Profit for the period				<u>875.973</u>
Results 1 January - 30 June 2006				
Total external revenues	2.148.350	1.151.621		3.299.971
Intersegment revenue	27.392	53	(27.445)	0
Total segment revenue	<u>2.175.742</u>	<u>1.151.674</u>	<u>(27.445)</u>	<u>3.299.971</u>
Segment result	<u>194.076</u>	<u>123.954</u>		318.030
Discontinued operations				94.665
Net finance costs				(911.741)
Income tax				105.407
Loss for the period				<u>(393.639)</u>

Discontinued operations

7. On 1 October 2006 Kögun was divided in two separate companies; Kögun hf. and Hands Holding hf. Hands Holding hf. took over specific assets and liabilities and a part of equity as specified below. The operations of the part taken over by Hands Holding, for the period 1 January to 30 June 2006, are stated in the comparative figures in the income statement as profit from discontinued operations.

Results from the discontinued operations for the period 1.1.-30.6.2006 are specified as follows:

Revenue	9.047.278
Expenses	(8.725.920)
Results from operating activities	321.358
Net finance expense	(219.912)
Income tax expense	(6.781)
Results from operating activities, net of income tax	<u>94.665</u>

Notes, contd.:

Finance income and expense

8. Finance income and expense are specified as follows:	1.1.-30.6.2007	1.1.-30.6.2006
Interest income on current assets	78.108	96.932
Interest income on non-current assets	102.390	0
Net foreign exchange gain	532.515	139.219
Net change in fair value of derivatives at fair value through profit or loss	456.658	0
Finance income	<u>1.169.671</u>	<u>236.151</u>
Interest expense on financial liabilities	427.423	570.645
Impairment and loss on sale of shares	245	0
Net change in fair value of derivatives at fair value through profit or loss	0	577.247
Finance expenses	<u>427.668</u>	<u>1.147.892</u>
Net finance income (costs)	<u>742.003</u>	<u>(911.741)</u>

Long-term receivables

9. Long-term receivables are specified as follows:	30.6.2007	31.12.2006
Receivables from parent company	4.314.154	4.933.059
Other receivables	0	2.486.715
Total	<u>4.314.154</u>	<u>7.419.774</u>

Earnings per share

10. Basic earnings per share is based on profit attributable to parent company shareholders and the weighted average of equity during the year and indicates earnings on each krona in shares. Diluted earnings per share are the same as basic earnings per share, where purchases options to employees or other persons have not been issued and the Group has not taken out loans that can be converted into equity.

	1.1.-30.6.2007		1.1.-30.6.2007		
	Continuing operations	Total	Continuing operations	Discontd. operations	Total
Profit (loss) attributable to shareholders	<u>875.973</u>	<u>875.973</u>	<u>(488.304)</u>	<u>94.665</u>	<u>(393.639)</u>
Weighted average number of shares:			30.6.2007		30.6.2006
Issued shares at 1 January			183.000		189.829
Effect of own shares			0		1.760
Weighted average number of outstanding shares at 30 June			<u>183.000</u>		<u>191.589</u>

Notes, contd.:

Loans and borrowings

11. Non-current liabilities:	30.6.2007	31.12.2006
Secured bank loans	5.786.097	6.730.153
Unsecured bank loans	4.339.608	4.136.747
Unsecured loan from parent company	1.482.394	3.752.027
Total	<u>11.608.099</u>	<u>14.618.927</u>

Current liabilities:

Current portion of non-current liabilities	109.581	195.507
Bank overdraft and other unsecured bank facility	52.335	20.117
Total	<u>161.916</u>	<u>215.624</u>

Repayments of non-current liabilities are specified as follows:

Repayments 1.7.2007 - 30.6.2008	109.581
Repayments 1.7.2008 - 30.6.2009	2.326.118
Repayments 1.7.2009 - 30.6.2010	3.658.087
Repayments 1.7.2010 - 30.6.2011	93.255
Repayments 1.7.2011 - 30.6.2012	4.048.245
Subsequent repayments	1.482.394
Total	<u>11.717.680</u>

Related parties

12. Identity of related parties

The Group has a related party relationship with its parent company, other subsidiaries of the parent and with its directors and executive officers.

During the period ended 30 June 2007 associates (other subsidiaries of the parent company) purchased goods and services from the Group amounting ISK 109 million and at 30 June 2007 associates owed the Group 27 million. The Group purchased services from associates in the amount of ISK 48 million. Receivables from the parent company Teymi hf. amounted to ISK 5.568 million at period end.

Quarterly Statement

13. The Group's quarterly continuing operations were as follows:

	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006
Operating revenues	2.187.050	2.141.601	2.184.582	1.826.991	1.920.448
Operating expenses	(2.044.907)	(1.993.563)	(2.218.984)	(1.649.834)	(1.785.825)
Other income	0	48.240	687.294	470	0
Financial income and expenses.....	294.467	447.536	(500.740)	273.268	(525.628)
Income tax	(85.312)	(119.139)	(70.994)	(82.563)	67.873
Profit (loss) for the period	<u>351.298</u>	<u>524.675</u>	<u>81.158</u>	<u>368.332</u>	<u>(323.132)</u>
EBITDA	241.860	292.764	842.508	244.953	200.421