

# **Kögun ehf.**

## **Condensed Interim Financial Statements 1 January - 30 June 2008**

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

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The interim financial statements of Kögun ehf. for the period 1 January - 30 June 2008 have been prepared in accordance with International Financial Reporting Standard (IFRS) for Interim Financial Statements (IAS 34).

The boards of Kögun ehf. and Teymi hf. decided on the 3rd of April 2008 to submit a motion to a Shareholders meeting and Board of Directors meeting of the two companies for the de-merging of some of the assets of Kögun ehf. into Teymi hf. The assets were specifically; all shares in Skýrr ehf., all shares in EJS ehf. and all shares in Eskill ehf. The effective date of the de-merger was decided to be 1 January, 2008. The share capital of Kögun ehf. was ISK 183 million before the de-merger but was reduced to ISK 79 million following the de-merger and is entirely held by Teymi hf.

According to the income statement, loss for the period amounted to ISK 334 million. According to the balance sheet, equity at the end of the period amounted to ISK 1.049 million, including share capital in the amount of ISK 79 million.

### Statement by the Board of Directors and CEO

To the best of our knowledge, the interim financial statements of Kögun ehf. for the period ended 30 June 2008 give a true and fair view of the assets, liabilities, financial position and financial performance of the company. Further, in our opinion the interim financial statements and the endorsement of the Board of Directors and the Managing Director gives a fair view of the development and performance of the company's operations and its position and describes the principal risks and uncertainties faced by the company.

The Board of Directors and the CEO have today discussed the condensed interim financial statements of Kögun ehf. for the period 1 January to 30 June 2008 and confirm them by means of their signatures.

Reykjavík, 30 July 2008.

The Board of Directors:

Árni Pétur Jónsson  
Ólafur Þór Jóhannesson  
Örn Karlsson

CEO:

Bjarni Birgisson

# Report on review of interim financial information

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To the Board of Directors of Kögun ehf.

## **Introduction**

We have reviewed the accompanying balance sheet of Kögun ehf. as of 30 June 2008 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 as at 30 June 2008 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Reykjavík, 30 July 2008.

**KPMG hf.**

Margret G. Flóvenz

# Consolidated income statement for the period 1 January - 30 June 2008

	Note	1.1.-30.6.2008	1.1.-30.6.2007 Restated*
<b>Continuing operations</b>			
Sales .....		687.680	638.310
Cost of sales .....		( 440.558 )	( 399.644 )
<b>Gross profit</b> .....		<u>247.122</u>	<u>238.666</u>
Other income .....		0	43.477
Sales expenses .....		( 14.369 )	( 11.282 )
Administrative expenses .....		( 105.283 )	( 104.756 )
<b>Results from operating activities</b> .....		<u>127.470</u>	<u>166.105</u>
Finance income .....	6	460.909	617.725
Finance expenses .....	6	( 974.943 )	( 292.395 )
<b>Net finance (costs) income</b> .....		<u>( 514.034 )</u>	<u>325.330</u>
<b>(Loss) profit before income tax</b> .....		( 386.564 )	491.435
Income tax .....	8	53.002	( 86.660 )
<b>(Loss) profit from continuing operations</b> .....		<u>( 333.562 )</u>	<u>404.775</u>
<b>Discontinued operations</b>			
Profit from discontinued operations .....	5	0	471.198
<b>(Loss) profit for the period attributable to equity holders</b> .....		<u>( 333.562 )</u>	<u>875.973</u>
<b>EBITDA</b> .....		127.995	166.969
<b>Earnings (loss) per share:</b>			
Basic (loss) earnings per share of ISK 1 .....	9	( 4,23 )	4,79
<b>Continuing operations:</b>			
Basic (loss) earnings per share of ISK 1 .....	9	( 4,23 )	2,21

\* See discontinued operations (note 6).

# Consolidated balance sheet as at 30 June 2008

	Note	30.6.2008	31.12.2007
<b>Assets:</b>			
Operating assets .....		1.076	541.744
Intangible assets .....		2.950.441	8.294.358
Investments in other companies .....		10.888	37.235
Receivables from Parent company .....	7	4.753.509	4.522.353
Deferred tax asset .....		81.316	0
Total non-current assets		7.797.230	13.395.690
Inventories and work in progress .....		0	375.209
Trade and other receivables .....		300.949	1.784.623
Receivables from Parent company .....	7	303.741	1.027.625
Cash and cash equivalents .....		501.852	782.018
Total current assets		1.106.542	3.969.475
<b>Total assets</b>		<b>8.903.772</b>	<b>17.365.165</b>
<b>Equity:</b>			
Share capital .....		78.947	183.000
Share premium .....		950.797	2.258.762
Legal reserve .....		19.737	45.750
Retained earnings .....		0	645.151
Total equity		1.049.481	3.132.663
<b>Liabilities:</b>			
Loans and borrowings .....	10	6.495.120	12.158.451
Deferred income tax liability .....		0	84.008
Total non-current liabilities		6.495.120	12.242.459
Loans and borrowings .....	10	949.767	109.956
Trade and other payables .....		409.404	1.880.087
Total current liabilities		1.359.171	1.990.043
Total liabilities		7.854.291	14.232.502
<b>Total equity and liabilities</b>		<b>8.903.772</b>	<b>17.365.165</b>

## Statement of changes in Equity as at 30 June 2008

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	Share capital	Share premium	Legal reserve	Retained earnings	Total
Equity at 1.1.2008 .....	183.000	2.258.762	45.750	645.151	3.132.663
Effect of de-merger, see note 5 .....	( 104.053)	( 1.284.320)	( 26.013)	( 334.988)	( 1.749.374)
Equity at 1.1.2008 restated .....	78.947	974.442	19.737	310.163	1.383.289
Minority interest and other changes .....				( 246)	( 246)
Loss for the period .....				( 333.562)	( 333.562)
Transferred to retained earnings .....		( 23.645)		23.645	
Equity at 30.6.2008 .....	78.947	950.797	19.737	0	1.049.481
Equity at 1.1.2007 .....	183.000	2.248.951	45.750	0	2.477.701
Minority interest and other changes .....				( 1.810)	( 1.810)
Profit for the period .....				875.973	875.973
Equity at 30.6.2007 .....	183.000	2.248.951	45.750	874.163	3.351.864

# Statement of cash flows for the period

## 1 January - 30 June 2008

	Note	1.1.-30.6.2008	1.1.-30.6.2007
<b>Cash flows from operating activities - continuing operations:</b>			
(Loss) profit from continuing operations .....		( 333.562)	404.775
Adjustments for:			
Depreciation and amortisation .....		525	865
Net finance costs (income) .....	6	514.034	( 325.330)
Gain on sale of operating assets .....		0	( 288)
Income tax .....		( 53.002)	86.660
		127.995	166.682
Change in operational assets and liabilities .....		( 21.325)	9.053
		106.670	175.735
Interest received .....		33.855	32.677
Interest paid .....		( 19.755)	( 23.626)
Income tax paid .....		( 454)	( 12.715)
Net cash from operating activities		120.316	172.071
<b>Cash flows from investing activities - continuing operations:</b>			
Proceeds from sale of operating assets .....		2.389	1.500
Cash disposed of due to de-merger .....	5	( 412.871)	0
Change in short-term receivables .....		10.000	61.413
Net cash from investing activities		( 400.482 )	62.913
<b>Cash flows from financing activities - continuing operations:</b>			
Repayment of loans and borrowings .....		0	( 71.413)
Change in current borrowings .....		0	( 3.744)
Net cash used in financing activities		0	( 75.157 )
<b>Discontinued operation:</b>			
Net cash from operating activities .....		0	265.787
Net cash used in investing activities .....		0	( 10.616)
Net cash used in financing activities .....		0	( 111.877)
Net cash from discontinued operation		0	143.294
<b>Net change in cash and cash equivalents .....</b>		( 280.166 )	303.121
<b>Cash and cash equivalents at 1 January .....</b>		782.018	377.935
<b>Cash and cash equivalents at 30 June .....</b>		501.852	681.056
<b>Investment and financing activities not affecting cash-flow:</b>			
Change in operational assets and liabilities .....		0	6.561
Change in long-term receivables .....		( 4.457.576)	2.863.672
Change in short-term receivables .....		5.585.100	0
Repayment of loans and borrowings .....		( 1.067.088)	( 2.237.534)
Change in current borrowings .....		( 60.436)	( 632.699)



# Notes to the condensed consolidated interim financial statements

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## 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 interim financial statements of the Company as at and for the six months ended 30 June 2008 comprise the Company alone but reference is made to the report of the Board of Directors on page 3 of the interim financial statements regarding the de-merging of Kögun ehf. as a Group on 1 January 2008. Kögun ehf. is a company active in IT services. Kögun ehf. is a subsidiary of Teymi hf.

## 2. Statement of compliance

These condensed 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 2007.

These condensed interim financial statements were approved by the Board of Directors on 30 July 2008.

## 3. Significant accounting policies

The accounting policies applied by the Company in these condensed 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 2007.

The consolidated financial statements of the Kögun Group as at and for the year ended 31 December 2007 are available upon request from the Company's registered office at Lynghóls 9, Reykjavík, or at [www.kogun.is](http://www.kogun.is).

These consolidated interim financial statements are presented in ISK, which is the company's functional currency. All financial information presented in ISK has been rounded to the nearest thousand. They are prepared on the historical cost basis.

## 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 interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the Group as at and for the year ended 31 December 2007.

## Notes, contd.:

### Discontinued operations

5. Reference is made to the report of the Board of Directors on page 3 of the interim statement regarding the de-merging of some of the assets of Kögun ehf. as a Group into Teymi hf. as of 1 January 2008. The assets were specifically; all shares in Skýrr ehf., all shares in EJS ehf. and all shares in Eskill ehf. Teymi hf. took over these assets and liabilities and a part of equity as specified below. The operations of the part taken over by Teymi hf., for the period 1 January to 30 June 2007, are stated in the comparative figures in the income statement as profit from discontinued operations.

#### Effect of the de-merger on the financial position of Kögun as at 1 January 2008:

Operating assets .....	( 537.754 )
Intangible assets .....	( 5.343.917 )
Investment in other companies .....	( 26.347 )
Long-term receivables .....	64.229
Deferred tax asset .....	28.313
Inventories and work in progress .....	( 375.209 )
Trade and other receivables .....	( 1.412.059 )
Cash and cash equivalents .....	( 412.871 )
Total assets .....	( 8.015.615 )
Loans and borrowings (non-current) .....	( 4.602.736 )
Loans and borrowings (current) .....	( 22.174 )
Deferred income tax liability .....	( 84.008 )
Trade and other payables .....	( 1.557.323 )
Total liabilities .....	( 6.266.241 )
Net assets and liabilities .....	( 1.749.374 )

#### Results of discontinued operations for the period 1 January - 30 June 2007:

Revenue .....	3.695.105
Expenses .....	( 3.522.789 )
Results from operating activities .....	172.316
Net finance income .....	416.673
Income tax .....	( 117.791 )
Results from operating activities, net of income tax .....	471.198

### Finance income and expense

6. Finance income and expenses are specified as follows:	1.1.-30.6.2008	1.1.-30.6.2007
Interest income on current assets .....	39.064	69.746
Interest income on non-current assets .....	517.509	9.991
Net foreign exchange gain .....	0	81.330
Net change in fair value of derivatives at fair value through profit or loss .....	0	456.658
Finance income .....	556.573	617.725
Interest expense on financial liabilities .....	730.449	292.395
Net foreign exchange loss .....	340.158	0
Finance expenses .....	1.070.607	292.395
Net finance (costs) income .....	( 514.034 )	325.330

## Notes, contd.:

### Receivables from Parent company

7. Non-current receivables from Parent company	30.6.2008
Receivables indexed with an average interest rate of 5,8%	4.849.173
<b>Current receivables from Parent company</b>	
Current portion of non-current receivables	95.664
Other current receivables	208.077
Total	303.741
Repayments of non-current receivables from Parent company are specified as follows:	
Repayments 1.7.2008 - 30.6.2009	95.664
Repayments 1.7.2009 - 30.6.2010	95.664
Repayments 1.7.2010 - 30.6.2011	95.664
Repayments 1.7.2011 - 30.6.2012	4.562.181
Total	4.849.173

### Income tax expense

8. Income tax recognised in the income statement is specified as follows:

		1.1.-30.6.2008	1.1.-30.6.2007
Deferred tax:			
Origination and reversal of temporary differences	( 53.002)	60.273	
Benefit of tax losses recognised	0	26.387	
Total income tax (income) expense in income statement	( 53.002)	86.660	
Reconciliation of effective tax rate:			
		1.1.-30.6.2008	1.1.-30.6.2007
(Loss) profit before income tax from continuing operations	( 386.564)		491.435
Income tax using the Company's domestic tax rate	15,0% ( 57.985)	18,0%	88.458
Effect of reduction in tax rate from 18% to 15%	( 1,3%) 4.887	0,0%	0
Non-deductible expenses	( 0,1%) 500	0,0%	0
Tax exempt income	0,1% ( 236)	( 0,4%) ( 1.798)	
Effect of de-merger	0,0% ( 168)	0,0%	0
	13,7% ( 53.002)	17,6%	86.660

### Earnings per share

9. 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 company has not taken out loans that can be converted into equity.

	1.1.-30.6.2008		1.1.-30.6.2007		
	Continuing operations	Total	Continuing operations	Discontd. operations	Total
(Loss) profit attributable to shareholders	( 333.562)	( 333.562)	404.775	471.198	875.973

## Notes, contd.:

9. contd.:

Weighted average number of shares:	30.6.2008	30.6.2007
Issued shares at 1 January .....	183.000	183.000
Effect of of division .....	( 104.053)	0
Weighted average number of outstanding shares at 30 June .....	<u>78.947</u>	<u>183.000</u>

## Loans and borrowings

<b>10. Non-current liabilities:</b>	30.6.2008	31.12.2007
Unsecured bond issue .....	4.849.173	4.449.681
Secured bank loans .....	2.135.257	6.313.956
Unsecured loan from parent company .....	460.457	1.504.770
Total .....	<u>7.444.887</u>	<u>12.268.407</u>
<b>Current liabilities:</b>		
Current portion of non-current liabilities .....	<u>949.767</u>	<u>109.956</u>
Total .....	<u>949.767</u>	<u>109.956</u>

Terms and conditions of outstanding loans were as follows:

	Currency	2008		2007	
		Average interest rate	Carrying amount	Average interest rate	Carrying amount
Secured bank loans .....	EUR	8,2%	894.717	7,2%	2.556.449
Secured bank loans .....	CHF	6,4%	653.558	5,1%	1.861.348
Secured bank loans .....	JPY	4,5%	293.940	3,3%	923.110
Secured bank loans .....	USD	6,1%	184.692	7,2%	579.444
Secured bank loans .....	CAD	7,0%	108.350	7,2%	338.191
Secured bank loans .....	Portfolio	-	0	5,6%	55.414
Unsecured bond issues (indexed) .....	ISK	5,8%	4.849.173	5,8%	4.449.681
Unsecured loan from parent company (indexed) .....	ISK	6,0%	<u>460.457</u>	3,0%	<u>1.504.770</u>
Total interest-bearing liabilities .....			<u>7.444.887</u>		<u>12.268.407</u>

Repayments of non-current liabilities are specified as follows:

Repayments 1.7.2008 - 30.6.2009 .....	949.767
Repayments 1.7.2009 - 30.6.2010 .....	1.376.818
Repayments 1.7.2010 - 30.6.2011 .....	95.664
Repayments 1.7.2011 - 30.6.2012 .....	4.562.181
Subsequent repayments .....	<u>460.457</u>
Total .....	<u>7.444.887</u>

## Notes, contd.:

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### Related parties

11. The Company 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 2008 associates (other subsidiaries of the parent company) purchased goods and services from the Company amounting ISK 117 million and at 30 June 2008 associates owed the Company 153 million. The Company purchased services from associates in the amount of ISK 12 million and from the parent company in the amount of ISK 10 million. Receivables from the parent company Teymi hf. amounted to ISK 5.057 million at period end.

### Quarterly Statement (unreviewed)

12. The Company's quarterly continuing operations were as follows:

	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Operating revenues .....	327.583	360.097	344.595	305.826	315.457
Operating expenses .....	( 272.163)	( 288.047)	( 276.006)	( 235.421)	( 258.462)
Other income .....	0	0	173	0	0
Financial income and expenses.....	( 169.700)	( 344.334)	( 193.755)	( 162.650)	124.237
Income tax .....	16.848	36.154	21.379	16.604	( 30.823)
<b>(Loss) profit for the period .....</b>	<u>( 97.432)</u>	<u>( 236.130)</u>	<u>( 103.614)</u>	<u>( 75.641)</u>	<u>150.409</u>
EBITDA .....	55.591	72.404	69.115	70.811	57.428