Kögun ehf.

Consolidated Financial Statements
for the year 2007

ISK

Kögun ehf.
Lynghálsi 9
110 Reykjavík

Reg. no. 490389-2619

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Endorsement and Statement by the Board of Directors and the MD

The financial statements of Kögun ehf. have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements comprise the consolidated 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 ehf.'s subsidiary, Eskill ehf., was moved under direct ownership of Kögun ehf. On 1 September 2007 the Group acquired all the shares in Innn hf and on the same day the acquired company was merged with Kögun's subsidiary Eskill ehf.

Share capital at the beginning and end of the year amounted to ISK 183 million and is entirely held by Teymi hf.

According to the income statement profit for the year amounted to ISK 646 million. The Company's equity amounted to ISK 3.133 million at the end of the year according to the balance sheet. The Board of Directors proposes that no dividend will be paid for the year 2007.

To the best of our knowledge, the consolidated financial statements of Kögun ehf. for the year 2007 give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. Further, in our opinion the consolidated 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 Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

Reykjavík, 31 January 2008.

The Board of Directors:

Managing Director:

Independent Auditor's Report

To the Board of Directors and Shareholder of Kögun ehf.

We have audited the accompanying consolidated financial statements of Kögun ehf. and its subsidiaries, which comprise the consolidated balance sheet as at December 31 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Kögun ehf. as of December 31 2007, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Reykjavík, 31 January 2008.

KPMG hf.

Consolidated income statement for the year 2007

	Note	2007	2006 Restated*
Continuing operations			
Sales	9	9.058.369	7.311.543
Cost of sales		(6.841.770)	(5.532.623)
Gross profit		2.216.599	1.778.920
Other income	10	48.413	687.764
Sales expenses		(433.634)	(316.825)
Administrative expenses		(1.169.339)	(982.752)
Impairment losses on intangible assets		0	(18.560)
Results from operating activities		662.039	1.148.547
Finance income		1.119.593	233.234
Finance expenses		(944.393)	(1.702.446)
Net finance income (costs)	13	175.200	(1.469.212)
Profit (loss) before income tax		837.239	(320.665)
Income tax	14	(191.616)	11.250
Profit (loss) from continuing operations		645.623	(309.415)
Discontinued operations			
Loss from discontinued operations	7	0	(943.725)
Profit (loss) for the year		645.623	(1.253.140)
Attributable to:			
Equity holders of the parent		645.623	(1.124.545)
Minority interest		0	(128.595)
Profit (loss) for the year		645.623	(1.253.140)
Earnings per share:			
Basic earnings per share of ISK 1	25	3,53	(6,60)
Continuing operations:			
Basic earnings per share of ISK 1	25	3,53	(1,63)

* See note 3.

The notes on pages 10 to 31 are an integral part of these consolidated financial statements.

Consolidated balance sheet as at 31 December 2007

	Note	2007	2006 Restated*
Assets:			
Operating assets	15	541.744	467.736
Intangible assets	16	8.294.358	8.338.969
Investments in other companies	18	37.235	33.984
Other receivables	19	4.522.353	7.419.774
Deferred tax asset		0	37.693
Total non-current assets		13.395.690	16.298.156
Inventories	20	375.209	245.792
Trade and other receivables	21	2.812.248	2.932.882
Cash and cash equivalents	22	782.018	377.935
Total current assets		3.969.475	3.556.609
Total assets		17.365.165	19.854.765
Equity:			
Share capital	23	183.000	183.000
Share premium	24	2.258.762	2.248.951
Legal reserve	24	45.750	45.750
Retained earnings		645.151	0
Total equity		3.132.663	2.477.701
Liabilities:			
Loans and borrowings	26	12.158.451	14.618.927
Deferred income tax liability	28	84.008	0
Total non-current liabilities		12.242.459	14.618.927
Loans and borrowings	26	109.956	215.624
Trade and other payables	29	1.880.087	2.542.513
Total current liabilities		1.990.043	2.758.137
Total liabilities		14.232.502	17.377.064
Total equity and liabilities		17.365.165	19.854.765

* See note 3.

The notes on pages 10 to 31 are an integral part of these consolidated financial statements.

Consolidated statement of changes in Equity for the year 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			2.748.301		2.748.301
Changes in estimates of derivatives, see note 34		(270.600)				(270.600)		(270.600)
Equity at 1.1.2007 restated	183.000	2.248.951	45.750			2.477.701		2.477.701
Minority interest and other changes		9.811			(472)	9.339		9.339
Profit for the year					645.623	645.623		645.623
Equity at 31.12.2007	183.000	2.258.762	45.750		645.151	3.132.663		3.132.663

The notes on pages 10 to 31 are an integral part of these consolidated financial statements.

Consolidated statement of Cash Flows for the year 2007

	Note	2007	2006
Cash flows from operating activities:			
Profit (loss) for the year from continuing operations		645.623	(309.415)
Adjustments for:			
Depreciation and amortisation	15	418.187	375.856
Impairment losses on goodwill		0	18.560
Finance (income) costs	13	(175.200)	1.469.212
Gain on sale of operating assets		(5.210)	(671.387)
Income tax	14	191.616	(11.250)
		1.075.016	871.576
Change in inventories		(129.417)	111.587
Change in trade and other receivables / payables		336.378	(415.361)
		1.281.977	567.802
Interest received		223.232	221.627
Interest paid		(614.994)	(709.707)
Income tax paid		(6.538)	(52.498)
Net cash from operating activities		883.677	27.224
Cash flows from investing activities:			
Dividends received		0	297.000
Proceeds from sale of operating assets		26.048	0
Proceeds from sale of other companies		7.500	27.000
Cash disposed of due to division		0	(425.930)
Aquisition of subsidiaries, net of cash acquired	8	6.874	(1.246.628)
Acquisition of operating assets		(254.820)	(220.433)
Acquisition of intangible assets		(16.111)	(54.019)
Aquisition of shares in other companies		(11.651)	0
Change in receivables		119.388	(1.650.860)
Net cash used in investing activities		(122.772)	(3.273.870)
Cash flows from financing activities:			
Proceeds from loans and borrowings		0	1.807.177
Change in own shares		0	(40.046)
Repayment of loans and borrowings		(350.848)	(788.458)
Change in current borrowings		(5.974)	187.945
Dividends paid		0	(77.200)
Net cash (used in) from financing activities		(356.822)	1.089.418
Discontinued operation:			
Net cash used in operating activities			(529.932)
Net cash used in investing activities			(455.863)
Net cash from financing activities			670.396
Net cash used in discontinued operation			(315.399)

Consolidated statement of cash flows for the year 2007, contd.:

	Note	2007	2006
Net change in cash and cash equivalents		404.083	(2.472.627)
Cash and cash equivalents at 1 January		377.935	2.850.562
Cash and cash equivalents at 31 December	22	782.018	377.935

Investment and financing activities not affecting cash-flow:

	2007	2006
Sale of operating assets	0	1.123.788
Aquisition of subsidiaries	(213.672)	0
Change in other receivables	3.083.905	(4.933.060)
Proceeds from loans and borrowings	0	10.232.527
Repayment of loans and borrowings (non-current)	(2.237.534)	(1.435.935)
Change in current borrowings	(632.699)	(4.987.320)

The notes on pages 10 to 31 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Reporting entity

Kögun ehf. is a company domiciled in Iceland. The address of the Company's registered office is Lynghháls 9, Reykjavík. The consolidated financial statements of the Company as at and for the year ended 31 December 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.

2. Basis of preparation

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by EU. The financial statements were approved by the Board of Directors on 31 January 2008.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:
-derivative financial instruments are measured at fair value

c. Functional and presentation currency

These consolidated 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.

d. Use of estimates and judgements

The preparation of 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note 17 - measurement of the recoverable amounts of cash-generating units containing goodwill.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group's entities. Prior period errors have been corrected in the current year's financial statements (see note 34).

Certain comparative amounts have been reclassified to conform with the current year's presentation (see note 15).

3. contd.:

a. Basis of consolidation

(i) **Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) **Transactions eliminated on consolidation**

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

b. Foreign currency

(i) **Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

c. Financial instruments

(i) **Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and marketable securities that are readily convertible to known amounts of cash and are subject to insignificant risk of change in value.

Accounting for finance income and expense is discussed in note 3.l.

Available-for-sale financial assets

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Other

Other non-derivative financial instruments are mesured at amortised cost using the effective interest method, less any impairment losses.

c. Contd:

(ii) **Derivative financial instruments**
The Group no longer holds derivative financial instruments to hedge its interest rate risk exposures.
Hedge accounting is not applied at year end 2007.

d. Operating assets

(i) **Recognition and measurement**
Items of operating assets are measured at cost less accumulated depreciation and impairment losses.

(ii) **Depreciation**
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of operating assets.

The estimated useful lives for the current and comparative periods are as follows:

Machinery and equipment .... 3-7 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

e. Intangible assets

(i) **Goodwill**
Goodwill arises on the acquisition of subsidiaries.

Acquisitions prior to 1 January 2004
As part of its transition to IFRSs, the Group, elected to restate only those business combinations that occurred on or after 1 January 2004. In respect of acquisitions prior to 1 January 2004, goodwill represents the amount recognised under the Group’s previous accounting framework, Icelandic GAAP.

Acquisitions on or after 1 January 2004
For acquisitions on or after 1 January 2004, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Acquisitions of minority interests
Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement
Goodwill is measured at cost less accumulated impairment losses.

(ii) **Other intangible assets**
Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

e. contd.:

(iii) **Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

(iv) **Amortisation**

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current period are as follows:

Other intangible assets .... 3-15 years

f. Leased assets

Operating leases are not recognised on the Group's balance sheet.

g. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs at the date of transfer.

h. Impairment

(i) **Financial assets**

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

h. contd.:

(ii) **Non-financial assets**

The carrying amounts of the Group's non-financial assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i. Employee benefits

Defined contribution plans

Contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

j. Revenue

(i) **Goods sold**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances and trade discounts. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(ii) **Services**

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

k. Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

l. Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, gain on sale of shares, changes in the fair value of derivatives at fair value through profit or loss and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, foreign currency losses, changes in the fair value of derivatives at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

m. Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

n. Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business operations that has been disposed of following the division of Kögun. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

o. Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

p. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

4. Determination of fair values

Where applicable, fair values have been determined for measurement and / or disclosure purposes. The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

5. Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies, and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adference to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securites.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

5. contd.:

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidty is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses cash management system which assists it in monitoring cash flow requirements and optimising tis cash return on investments. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on borrowings that are denominated in a currency other than the respective functional currencies of Group entities.

Segment reporting

6. Segment information is presented in respect of the Group's business segments. The segment format is organized by the nature of the operations and is based on Group's management and internal reporting structure. The Group's operations are solely in Iceland.

   Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest-bearing loans and borrowings and income tax assets and liabilities.

   The group comprises the following 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, maintainance and various related services.

Business segments

	Software	Hardware	Eliminations	Consolidated
2007				
Total external revenues	5.147.476	3.910.893		9.058.369
Intersegment revenue	94.264	186.882	(281.146)	
Total segment revenue	5.241.740	4.097.775	(281.146)	9.058.369
Segment result	521.936	140.103		662.039
Net finance income				175.200
Income tax				(191.616)
Profit for the year				645.623
Segment assets	13.650.487	3.714.678		17.365.165
Unallocated liabilities				14.232.502
Capital expenditure	210.667	44.153		254.820
2006				
Total external revenues	3.970.581	3.340.962		7.311.543
Intersegment revenue	61.499	4.882	(66.381)	
Total segment revenue	4.032.080	3.345.844	(66.381)	7.311.543
Segment result, excl. gain on sale of operating assets	109.840	366.849		476.689
Gain on sale of operating assets	487.395	184.463		671.858
Discontinued operations				(943.725)
Net finance costs				(1.469.212)
Income tax				11.250
Loss for the year				(1.253.140)
Segment assets	15.732.386	4.122.379		19.854.765
Unallocated liabilities				17.377.064
Capital expenditure	141.714	78.719		220.433

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 September 2006, are stated in the comparative figures in the income statement as loss from discontinued operations.

Loss from the discontinued operations specifies as follows:	2006 1.1.-30.9.
Results of discontinued operations:	
Revenue	12.678.023
Expenses	(13.246.067)
Results from operating activities	(568.044)
Net finance expense	(391.131)
Income tax	15.450
Results from operating activities, net of income tax	(943.725)

Acquisition of subsidiaries

8. On 1 September 2007 the Group acquired all the shares in Innn hf. The acquisition had the following effect on the Group's assets and liabilities on acquistition date:

	Pre-aqcuisition carrying amounts	Recognised values on acquisition
Operating assets	3.279	3.279
Deferred tax asset	23.697	23.697
Trade and other receivables	58.991	58.991
Cash	6.874	6.874
Loans and borrowings (non-current)	(16.181)	(16.181)
Trade and other payables	(24.744)	(24.744)
Net identifiable assets and liabilities	51.916	51.916
Goodwill on acquisition		161.755
Consideration paid, reducing the Group's payables to parent company Teymi hf.		213.671
Cash acquired		(6.874)
Net cash inflow		(6.874)

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business's work force. As of 1 September the acquired company was merged with Kögun's subsidiary Eskill ehf.

Sales

9. Sales is specified as follows:

	2007	2006
Services	5.051.056	4.490.287
Sales of goods	4.007.313	2.821.256
Total	9.058.369	7.311.543

Other income

10. Other income is specified as follows:

	2007	2006
Gain on sale of operating assets	5.224	671.858
Gain on sale of other assets	39.000	0
Other services	4.189	15.906
Total	48.413	687.764

Personnel expenses

11. Personnel expenses are specified as follows:

Salaries	2.943.684	2.531.397
Contributions to defined contribution plans	291.354	313.785
Other salary-related expenses	402.648	245.082
Total	3.637.686	3.090.264

Personnel expenses are divided between the following income statement items:

Cost of sales	2.793.079	2.390.338
Sales expenses	346.927	220.431
Administrative expenses	497.681	479.495
Total	3.637.687	3.090.264

Auditors' Fees

12. Auditors' fees are specified as follows:

Audit of the financial statements	9.785	7.831
Review of interim financial statements	1.665	3.650
Other services	8.009	12.880
Total	19.459	24.361
Thereof remuneration to others than KPMG Iceland	0	800

Finance income and expense

13. Finance income and expense are specified as follows:

Interest income on current assets	93.622	191.278
Interest income on non-current assets	264.854	39.956
Gain on sale of shares	0	2.000
Net foreign exchange gain	282.672	0
Net change in fair value of derivatives at fair value through profit or loss	478.445	0
Finance income	1.119.593	233.234
Interest expense on financial liabilities	943.644	978.739
Impairment and loss on sale of shares	749	4.539
Net foreign exchange loss	0	45.313
Net change in fair value of derivatives at fair value through profit or loss	0	673.855
Finance expenses	944.393	1.702.446
Net finance (income) costs	(175.200)	1.469.212

Income tax expense

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

	2007	2006
Current tax expense:		
Current period	43.441	10.137
Deferred tax expense:		
Origination and reversal of temporary differences	148.175	(21.387)
Total income tax expense (income) in income statement	191.616	(11.250)

Reconciliation of effective tax rate:

		2007		2006
Profit (loss) before income tax		837.239		(320.665)
Income tax using the Company's domestic tax rate	18,0%	150.703	18,0%	(57.720)
Non-deductible expenses	3,8%	31.881	(14,5%)	46.470
Other changes	1,1%	9.032	0,0%	0
	22,9%	191.616	3,5%	(11.250)

Operating assets

15. Operating assets and their depreciation is specified as follows:

Cost	Equipment
Balance at 1.1.2007	1.533.668
Acquired through business combinations	3.279
Additions during the year	284.777
Sales and disposals during the year	(107.993)
Balance 31.12.2007	1.713.731
Depreciation	
Balance at 1.1.2007	1.065.932
Depreciation	193.209
Sales and disposals during the year	(87.154)
Balance 31.12.2007	1.171.987
Carrying amounts	
1.1.2007	467.736
31.12.2007	541.744
Depreciation ratios	12-35%

15. contd.:

The Group's depreciation and amortisation charge in the income statement is specified as follows:

	2007	2006
Depreciation of operating assets, see note 15	193.209	312.058
Amortisation of intangible assets, see note 16	224.978	82.357
Depreciation and amortisation recognised in the income statement	418.187	394.415

Depreciation is allocated as follows on operating items:

	2007	2006
Cost of sales	329.403	299.025
Sales expenses	22.827	14.212
Administrative expenses	65.957	81.178
Stated in the income statement as depreciation	418.187	394.415

Change in classification

During the current year the Group modified the income statement classification of amortisation expense from administrative expenses to cost of sales. Comparative amounts were reclassified for consistency, which resulted in ISK 125 million being reclassified.

Intangible Assets

16. Intangible assets and their amortisation and impairment losses are specified as follows:

Cost	Goodwill	Other intangible assets	Total
Balance at 1.1. 2007	6.450.658	2.464.688	8.915.346
Additions	5.965	12.647	18.612
Acquisitions through business combinations	161.755	0	161.755
Balance at 31.12.2007	6.618.378	2.477.335	9.095.713
Amortisation and impairment losses			
Balance at 1.1. 2007	23.785	552.592	576.377
Amortisation for the year		224.978	224.978
Balance at 31.12.2007	23.785	777.570	801.355
Carrying amounts			
1.1.2007	6.426.872	1.912.097	8.338.969
31.12.2007	6.594.593	1.699.765	8.294.358
Depreciation ratios		12-35%	

17. ***Impairment tests for cash-generating units containing goodwill***

For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units which represent the lowest level within the Group, at which the goodwill is monitored for internal management purpose.

The aggregate carrying amount of goodwill allocated to each segment is specified as follows:

	2007	2006
Software	5.075.499	5.095.786
Hardware	1.519.094	1.331.086
Total	6.594.593	6.426.872

The recoverable amount of each cash generating unit was based on its value in use and was determined with the assistance of independent valuers. The recoverable value of the units were not lower than the carrying amounts. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based in the following key assumptions:

Cash flows were projected based on actual operating results and the 5-year business plan. Cash flows for a further infinite period were extrapolated using a constant growth rate.

The anticipated annual revenue growth included in the cash flow projections was 8 to 14 percent for the years 2008 to 2012.

The terminal nominal growth was assumed to be 5 percent per annum. The estimate was based on statistical analysis of long-term market price trends adjusted annually for actual experience.

A pre-tax discount rate of 14 percent was applied in determining the recoverable amount of the units. The discount rate was estimated based on an industry average weighted average cost of capital.

The above estimates are particularly sensitive in the following areas:

An increase of 1 percentage point in the discount rate and a decrease of 1 percentage point in future growth would have resulted in impairment loss of ISK 64 million.

Investment in other companies

18. The Group's investment in other companies is specified as follows:

	Share	Carrying amount
TM Software hf., Kópavogur	1,7%	25.240
Other companies (8)		11.995
Total		37.235

Other receivables

19. Other receivables are specified as follows:

	2007	2006
Receivables from parent company	4.552.353	4.933.059
Receivables from Hands Holding hf.	0	2.486.715
Total	4.552.353	7.419.774

At 31 December 2007 no allowance was conseded for doubtful receivables. No impairment loss was recognised during the years 2006 and 2007.

Other receivables are interest bearing with undecided repayment date.

Inventories

20. Inventories consist of finished goods. In 2007 the write-down of inventories to net realisable value amounted to ISK 18 million (2006: ISK 25 million).

Trade and other receivables

21. Trade and other receivables are specified as follows:

	2007	2006
Nominal value of trade receivables	1.677.400	1.301.839
Impairment losses of trade receivables	(45.799)	(39.104)
Receivables from parent company	1.027.625	1.206.270
Other receivables	153.023	463.877
Total	2.812.249	2.932.882

Impairment losses have been recognised for doubtful accounts. Impairment losses are determined by management with reference to past default experience. The impairment losses do not represent a final write-off.

The directors believe that the carrying amounts of trade receivables approximates their fair value.

Cash and cash equivalents

22. Cash and cash equivalents are specified as follows:

Bank balance	759.873	176.215
Marketable securities	22.145	201.720
Cash and cash equivalents in the statement of cash flows	782.018	377.935

Equity

Issued capital

23. The nominal value of issued share capital at the beginning and end of the year amounted ISK 183 million.

Share premium and legal reserve

24. Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the company. According to Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve which can not be paid out as dividend to shareholders.

Earnings per share

25. 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.

	Continuing operations	Discontd. operations	2007 Total	Continuing operations	Discontd. operations	2006 Total
Profit (loss) attributable to shareholders	645.623	0	645.623	(309.415)	(943.725)	(1.253.140)

Weighted average number of shares:

	2007	2006
Issued shares at 1 January	183.000	189.829
Effect of own shares	0	2.466
Effect of division	0	(2.500)
Weighted average number of outstanding shares at 31 December	183.000	189.795

Loans and borrowings

26. **Non-current liabilities:**

	2007	2006
Unsecured bond issue	4.449.681	4.286.703
Secured bank loans	6.313.956	6.775.704
Unsecured loan from parent company	1.504.770	3.752.027
Total	12.268.407	14.814.434

Current liabilities:

	2007	2006
Current portion of non-current liabilities	109.956	195.507
Bank overdraft and other unsecured bank facility	0	20.117
Total	109.956	215.624

27. **Terms and repayment schedule:**

Terms and conditions of outstanding loans were as follows:

	Currency	2007 Average interest rate	2007 Carrying amount	2006 Average interest rate	2006 Carrying amount
Secured bank loans	EUR	7,2%	2.556.449	5,9%	2.719.167
Secured bank loans	CHF	5,1%	1.861.348	4,3%	2.014.302
Secured bank loans	JPY	3,3%	923.110	2,8%	1.018.796
Secured bank loans	USD	7,2%	579.444	7,5%	685.353
Secured bank loans	CAD	7,2%	338.191	6,5%	338.086
Secured bank loans	Portfolio	5,6%	55.414		
Unsecured bond issues (indexed)	ISK	5,8%	4.449.681	5,8%	4.286.703
Unsecured loan from parent company	ISK	3,0%	1.504.770	3,0%	3.752.027
			12.268.407		14.814.434
Bank overdraft	ISK		0	17,5%	20.117
Total interest-bearing liabilities			12.268.407		14.834.551

Inventories and receivables of the subsidiaries have been pledged against debts amounting to ISK 5.353 million (2006: ISK 5.732 million).

Repayments of non-current liabilities are specified as follows:

	2007	2006
Repayments in 2007		215.624
Repayments in 2008	109.956	124.641
Repayments in 2009	6.361.093	6.674.049
Repayments in 2010	103.120	142.081
Repayments in 2011	4.189.468	4.000.395
Subsequent repayments	1.504.770	3.677.761
Total	12.268.407	14.834.551

Deferred income tax liabilities and assets

28. Deferred income tax liabilities and tax assets are attributable to the following:

	2007	2006
Operating assets	14.487	115.341
Intangible assets	4.496	1.100
Other receivables	0	21.523
Derivatives	0	(83.666)
Trade and other receivables	3.535	9.115
Loans and borrowings	(10.334)	(15.852)
Employee benefit plans	6.919	0
Deferred gain on sale of assets	98.548	0
Tax loss carry-forwards	(32.170)	(89.112)
Other items	(1.473)	3.858
Net tax liabilities (assets)	84.008	(37.693)

28. contd.:

The Parent Company's carry-forward tax loss amounted to ISK 160 million at year-end. The tax loss expires between 2010 and 2014.

Trade and other payables

29. Trade and other payables are specified as follows:

	2007	2006
Trade payables	763.354	498.822
Prepaid income	41.040	42.148
Derivatives at fair value through profit and loss	0	464.812
Other payables	1.075.693	1.536.731
Total trade and other payables	1.880.087	2.542.513

Financial Instruments

30. ***Credit risk***

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Loans and receivables	7.334.601	10.352.656
Cash and cash equivalents	782.018	377.935
Total	8.116.619	10.730.591

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Iceland	1.643.895	1.232.792
Other European countries	4.556	35.065
United States	28.949	33.982
Total	1.677.400	1.301.839

The aging of trade receivables at the reporting date was:

Not past due	1.214.003	845.358
Past due 0-30 days	135.692	243.027
Past due 31-180 days	168.529	117.614
Past due 181-365 days	83.250	59.603
More than one year	75.926	36.237
Total	1.677.400	1.301.839

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2007
Balance at 1 January	39.104
Impairment loss recognised	6.695
Balance at 31 December	45.799

30. contd.:

Liquity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

2007	Carrying amount	Contractual cash flows	Within 12 months	1-2 years	2-4 years
Non-derivative financial liabilities					
Secured bank loans................................	6.313.956	6.556.536	214.176	6.342.360	
Unsecured bond issues..........................	4.449.681	5.453.565	259.135	522.483	4.671.947
Trade and other payables.......................	1.880.087	1.880.087	1.880.087		
Total	12.643.724	13.890.188	2.353.398	6.864.843	4.671.947

Loan from Parent company amounted to ISK 1.505 million at year-end. Repayment dates are undecided.

Currency risk

The Group's exposure to foreign currency risk is due to secured bank loans, see note 27.

Interest rate risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	2007	2006
Fixed rate financial liabilities	5.954.451	8.038.730
Variable rate financial liabilities	6.313.956	6.795.821

Fair values

Any difference between the fair values of financial assets and liabilities and the carrying amounts is immaterial.

Operating leases

31. ***Lease as lessee***

Operating lease rentals are payable as follows:	2007	2006
Less than one year	194.816	21.451
Between one and five years	700.713	19.980
More than five years	235.522	0
Total	1.131.051	41.431

The Group leases a number of properties under operating leases. The leases typically run for a period of ten years, with an option to renew the lease after that date. Leases provide for additional rent payments that are based on changes in a local price index. Each lease contract is non-cancellable.

The Group leases a number of cars under operating leases. The leases typically run for a period of three years, with an option to renew the lease after that date. Each lease contract is cancellable due to penalty.

During the year ended 31 December 2007 ISK 202 million was recognised as an expense in the income statement in respect of operating leases.

Related parties

32. ***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.

Transactions with management and key personnel

Salaries and benefits of management paid for their work for Group companies are specified as follows:

	Salaries and benefits
Örn Karlsson, Board member	1.200
Bjarni Birgisson, Managing Director of Kögun ehf.	19.467
Six other directors	68.624

Other transactions with related parties

During the year ended 31 December 2007, associates (other subsidiaries of the parent company) purchased goods from the Group amounting ISK 390 million and at 31 December 2007 associates owed the Group 152 million. The Group purchased services from associates in the amount of ISK 108 million. Receivables from the parent company Teymi amounted to ISK 5.550 million at year end.

Group entities

33. The Company holds three subsidiaries which all are included in the consolidated financial statements. The subsidiaries own two subsidiaries which are also included. The subsidiaries included in the consolidated financial statements are specified as follows:

	Share
EJS ehf., Reykjavík	100,0%
Hýsing ehf., Reykjavík	100,0%
Isoft á Íslandi ehf., Reykjavík	100,0%
Eskill ehf., Reykjavík	100,0%
Skýrr ehf., Reykjavík	100,0%

Corrections of prior period

34. In the 2006 Consolidated Financial statements for Kögun ehf. a foreign currency swap contract was incorrectly entered so that the loss for 2006, net of income tax effect, was undervalued by ISK 271 million. Short term liabilities were undervalued by ISK 330 million and deferred tax asset by ISK 59 million. The comparative amounts in the current year's Consolidated Financial statements have been corrected as follows:

	Previously reported	Corrections	Restated
Income statement:			
Finance expenses	(1.372.446)	(330.000)	(1.702.446)
Income tax	(48.150)	59.400	11.250
Loss from continuing operations	(982.540)	(270.600)	(1.253.140)
Balance sheet:			
Deferred tax asset	0	37.693	37.693
Share premium	(2.519.551)	270.600	(2.248.951)
Deferred income tax liability	(21.707)	21.707	0
Trade and other payables	(2.212.513)	(330.000)	(2.542.513)

Comparative amounts in the statement of cash flows and notes have been restated accordingly.

Unaudited statements

Quarterly Statement

The Group´s quarterly continuing operations were as follows:

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
Year 2007					
Operating revenues	2.141.601	2.187.050	2.044.375	2.685.343	9.058.369
Operating expenses	(1.993.563)	(2.044.907)	(1.879.278)	(2.526.995)	(8.444.743)
Other income	48.240	0	0	173	48.413
Financial income and expenses	447.536	294.467	(257.193)	(309.610)	175.200
Income tax	8.503	4.332	(85.312)	(119.139)	(191.616)
Profit for the year	652.317	440.942	(177.408)	(270.228)	645.623
EBITDA	292.764	241.860	279.985	265.617	1.080.226
EBITDA ratio	13,4%	11,1%	13,7%	9,9%	11,9%

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
Year 2006					
Operating revenues	1.379.523	1.920.448	1.826.990	2.184.582	7.311.543
Operating expenses	(1.196.116)	(1.785.825)	(1.649.834)	(2.218.985)	(6.850.760)
Other income	0	0	470	687.294	687.764
Financial income and expenses	(386.113)	(525.628)	(56.732)	(500.739)	(1.469.212)
Income tax	37.534	67.873	(23.163)	(70.994)	11.250
Loss for the year	(165.172)	(323.132)	97.731	81.158	(309.415)
EBITDA	236.521	200.422	244.952	189.210	871.105 *
EBITDA ratio	17,1%	10,4%	13,4%	8,6%	11,9% *

* EBITDA for the year 2006 is adjusted for gain on sale of operating assets which amounted to ISK 672 million.