

Highlights of Q1 2009 performance

- Substantial improvement in operating performance from Q4 2008
- Nýherji Group profit of ISK 3 million in Q1
- 1/3 of income originates from successful activities in Denmark and Sweden
- Equity ratio increases and debt decreases in the quarter
- Profit on product sales and operating services

Thordur Sverrisson, CEO:

“The performance of the Nýherji Group in the first quarter of 2009 has improved significantly over the fourth quarter of 2008. The variety of measures taken in order to curtail the Group’s operating cost in view of the volatility and uncertainty prevailing in the Icelandic economy has already brought partial results. In February, a salary reduction of 10% was applied to all employees of Nýherji hf. and its subsidiaries in Iceland. The number of employees has also been reduced by 13% from the average number of full-time equivalent positions last year, affecting technical, software and development work. Software development projects have also been postponed. These actions will result in a further reduction in operating cost in Q2.

The performance of Nýherji hf. and its Icelandic subsidiaries providing operating and technical services, as well as product sales, in Q1 was positive. Activities of foreign companies overall are close to forecasts. The economic climate of Nýherji’s subsidiaries in Denmark and Sweden is steady and the outlook good. On the other hand, demand for services of business software, software solutions and consultancy in Iceland has contracted considerably. The Nýherji Group therefore returned a profit of ISK 3 million in Q1 2009.”

Operating outcome in Q1 2009

Quarterly results - Key Figures (all amounts ISK thousands)					
	F1 2009	Q4 2008	F3 2008	F2 2008	F1 2008
Goods and services sold	3,558,212	3,993,762	3,663,945	3,828,400	3,426,504
Cost of goods and services sold	(1,516,692)	(1,779,720)	(1,813,029)	(1,775,323)	(1,570,268)
Gross profit	2,041,520	2,214,042	1,850,916	2,053,077	1,856,236
Salaries and related expense	(1,562,913)	(1,607,849)	(1,425,538)	(1,550,423)	(1,368,632)
Operating expense	(488,146)	(789,010)	(360,989)	(448,803)	(342,313)
Profit from operations (EBIT)	(50,695)	(174,562)	69,625	63,589	100,051
Net financial expense	(75,819)	(421,875)	(389,414)	(155,031)	(513,849)
Pre-tax loss	(126,514)	(596,437)	(319,762)	(91,442)	(413,798)
Income tax	16,416	89,577	57,930	519	72,401
Net profit for the period	(110,098)	(506,860)	(261,859)	(90,923)	(341,397)
EBITDA	(7,827)	(84,260)	124,956	123,080	145,291
EBITDA ratio	(0.22%)	(2.1%)	3.5%	3.3%	4.3%
Avg. no. of full-time equiv. Pos.	667	701	737	755	734
Translation from for. subsidiaries	112,728	246,563	61,004	2,011	132,549
Total profit	2,630	(260,297)	(200,828)	(888,192)	(208,848)

In making comparisons with Q1 2008, attention should be drawn to the fact that TM Software hf. and Marquardt & Partners AB were only included in the operations of Nýherji hf. in February 2008.

Nýherji's results for Q1 2009

Sales of goods and services amounted to over ISK 3,558m in Q1 2009, compared to ISK 3,427m during the same quarter of the previous year, or the equivalent of a YoY increase of 4% for the quarter.

Salaries and related expenses were ISK 1,563m, compared to just over ISK 1,369m for the same period the previous year. The total number of full-time equivalent positions at the end of the quarter was 655.

Operating costs totalled ISK 488m in Q1 2009, compared to ISK 342m in the same quarter of 2008. EBITDA was negative by ISK 8m during the quarter, compared to a positive figure of ISK 145m for the first quarter of 2008.

Net financial expense was ISK 76m compared to ISK 514m in Q1 2008. Total profit in the quarter was ISK 3m, whereas in Q1 2008 the total loss amounted to ISK 209m.

Balance sheet as of 31 March 2009 – Key figures (all amounts ISK thousands)		
	31.03 2009	31.12. 2008
Fixed assets	5.683.199	5.577.424
Current assets	3.612.426	4.375.010
Total assets	9.295.625	9.952.434
Equity	1.963.847	1.963.966
Long-term liabilities	2.594.514	2669.106
Short-term liabilities	4.737.264	5.319.362
Total liabilities and equity	9.295.625	9.952.434

At the end of the period total assets amounted to ISK 9,296m, compared to ISK 9,952m at year-end 2008. Long-term liabilities have decreased from ISK 2,669m to ISK 2,595m since year-end 2008. Short-term liabilities have decreased from ISK 5,319m to ISK 4,737m since year-end 2008. Equity amounted to ISK 1,964m at the end of March and the equity ratio was 21.1% at the end of Q1 compared to 19.7% at the end of last year.

Summary of operations

Sales have been good in most of Nýherji's product categories, although below budget forecasts, partly due to currency rate fluctuations and customers' financing difficulties.

Operations of Skyggfir ehf. returned a profit in line with forecast in Q1. This company underwent major changes at the end of last year when TM Software's operating and hosting services were merged with Nýherji's technical department. The merger has proceeded successfully; the company's operations are stable and its activities in line with expectations. Skyggfir is one of the largest technical services and hosting companies in Iceland, providing mainly services in design, installation and operation solutions.

The performance of Dansupport A/S in Denmark improved during the quarter. The company has lowered its operating cost, for instance, by reducing staff, in order to strengthen its basis and is expected to reach a break-even level in the coming quarter. Furthermore, work is underway in expanding the services offered by Dansupport by adding solutions and services from Skyggfir, such as operating and hosting services.

At Sense ehf. sales of consumer equipment have been good but the number of corporate projects is down. A new retail outlet, Sense Center, was opened in the Kringlan shopping centre, featuring Canon cameras, printers and office supplies and Lenovo computers. Emphasis has also been placed on cutting operating costs, e.g. by moving Sense's warehouse to Nýherji's distribution centre.

A sudden sharp contraction in the Icelandic economy in Q1 this year had a considerable negative impact on the operations of three consultancy companies in the Nýherji Group, TM Software ehf., ParX ehf. and Applicon ehf., resulting in losses on the operations of these companies.

Nýherji's results for Q1 2009

At TM Software ehf. demand has dropped and software projects are fewer. Due to the uncertain outlook on this market in Iceland, TM Software has directed efforts at increasing its projects abroad. At the same time, it has achieved noteworthy success in developing web solutions, including an information and communications web for the United Nations (UN) which will be used for rescue work following natural catastrophes.

IBM's business consultancy ParX ehf. has experienced declining demand for consultancy in Q1. At the same time competition has increased, with more companies offering business consultancy, especially in financial and human resources consultancy.

Both the income and performance of Applicon ehf. in Iceland are below estimates, in part due to weaker demand for services for business software following the state's takeover of the Icelandic banks, as Applicon had worked extensively for banks and other financials. The company has been seeking projects abroad and aims to increase these in coming quarters. Last week Applicon was honoured as the best SAP partner in Denmark in 2008.

The software companies Vigor ehf. and EMR ehf. performed well and returned a profit in line with forecasts in the quarter.

Applicon A/S in Denmark returned a good profit. Its operations have strengthened this year and it has a strong project pipeline with various large companies in Denmark. During the past two years, the Danish company Applicon Solutions A/S has developed a specialised security solution for SAP and sales of this solution returned a fine profit during Q1.

Activities at Applicon AB in Sweden improved during the quarter and additional employees were hired. The company has a solid group of customers, including Nordea, Swedbank and Handelsbanken, for whom it is working on introducing specialised financial solutions.

Activities at Klak ehf. – the Innovation Centre, which is a joint subsidiary of Nýherji hf. and Reykjavík University, were brisk in Q1. Leaders of around 30 start-up companies participated in the business workshop *Viðskiptasmíðjan* which is an instruction and consultancy programme for start-ups. In addition, the Iceland Seed Forum, held on the premises of Kaupthing Bank, attracted over 100 investors and other guests to presentations by seven Icelandic start-up companies.

Operating environment of Icelandic enterprises

A stable financial environment is a crucial prerequisite for successful business operations. Icelandic enterprises, however, currently exist in economic circumstances and an operating environment never before experienced, which make it impossible to achieve satisfactory business performance. In recent quarters, companies have had to grapple with the following, for instance:

- The exchange rate of currencies of Iceland's leading trading partner countries rose by almost 80% from the beginning to end of 2008.
- In Q1 2009, the ISK strengthened by almost 15% during the first 11 weeks then slid back by over 13% during the final two weeks of the quarter.
- Interest rates on common bank loans were around or over 20% in Q1 2009 and penalty interest 25%.
- Domestic commercial banks are not operating normally and new credit to corporates is minimal.
- Regular FX transactions between Iceland and other countries have been limited substantially by law.
- Most foreign suppliers of Icelandic companies only sell goods for payment in advance or cash payment and foreign receivable guarantors do not guarantee receivables on Icelandic companies.
- The state banks have taken over various insolvent companies and continue their operations even after they have received new reg. nos. instead of having the companies enter traditional liquidation proceedings.
- No information is available on important data, such as the volume of FX trading, the status of measures to fulfil conditions set by the IMF, the debt position of the Treasury and the commercial banks, and many other aspects of significance for major decisions.

Nýherji operates primarily in the corporate market and is highly aware of the desperate circumstances of a large number of its domestic customers due to a shortage of credit, high interest rates and the contraction created by the economic uncertainty. Therefore it is of vital significance for business and industry, and in turn for Icelandic households, that the Icelandic parliament Althingi formulate a clear monetary policy, immediately after the elections, and place the state banks in a position enabling them to serve business and industry more normally than is currently the case.

Outlook

The outlook for operations of Nýherji's subsidiaries in Denmark and Sweden is positive in terms of income and performance for coming quarters. Nýherji's budget predicts an acceptable performance this year, although due to highly uncertain operating circumstances in Iceland it is difficult to say whether this forecast will prove correct.

2009 financial calendar

Scheduled presentation of quarterly results in 2009

2 nd quarter:	24 July
3 rd quarter:	23 October
4 th quarter:	29 January

Adoption of quarterly results

Nýherji's results for Q1 2009 were adopted at a meeting of the company's Board of Directors on 24 April 2009. The quarterly financial statements of Nýherji hf. are prepared in accordance with International Financial Reporting Standards (IFRS). Translation from foreign subsidiaries has been recognised separately for the first time in the summary of overall performance of the quarterly results, in accordance with IFRS provisions.

Further information

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Nýherji hf.

Nýherji hf. creates added value for its customers by applying the expertise of its employees in IT, corporate operations and client needs. The company offers leading-edge consultancy and professional IT services, together with high quality computer, office and software solutions and dependable technical and operating services. The Nýherji Group includes 16 companies with operations in Iceland and abroad, with a total of 655 full-time equivalent employee positions. Shares in Nýherji hf. are listed on the OMX Nordic Exchange in Iceland.

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