



### **92,000,001 New Shares in Nýherji hf. sold at ISK 7.0 per Share**

This Prospectus is made public in connection with the admission to trading of 92,000,001 New Shares in the Issuer on the Main Market of NASDAQ OMX Iceland, where Shares in Nýherji hf. are traded under the symbol "NYHR". The New Shares are expected to be admitted to trading on 22 December 2010. The date when the New Shares will be admitted to trading will be made public at least one day in advance by NASDAQ OMX Iceland. The total number of issued Shares in Nýherji hf. is 307,999,999 Shares as at the date of this Share Securities Note and the intended issue of the 92,000,001 New Shares which is expected to take place on 20 December 2010 will raise the total number of issued Shares in the Company to 400,000,000.

The NASDAQ OMX Iceland hf. has scrutinized and approved this Prospectus according to an agreement with the Financial Supervisory Authority (FME) in Iceland. This document constitutes a Prospectus for the purposes of Directive 2003/71/EC of the European Parliament and of the Council of the European Union (the "European Prospectus Directive") on the prospectus to be published when securities are offered to the public or admitted to trading, and of Commission Regulation no. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council 4 November 2003. The Commission's Regulation has been adopted into Icelandic law by Icelandic Regulation no. 243/2006 on the transposition of Commission Regulation (EC) No 809/2004 implementing Directive 2003/71/EC as regards information contained in prospectuses etc.

Investing in the Shares involves risks. See chapters on risk factors in the Share Securities Note and the Share Registration Document of the Prospectus.

The distribution of this Prospectus may be restricted by law in certain jurisdictions. We require persons into whose possession this Prospectus comes, or who wish to purchase Shares, to inform themselves about and to observe any such restrictions. Any failure to comply with any of those restrictions may constitute a violation of applicable securities laws. This Prospectus does not constitute an offer of, or an invitation to purchase, any of the Issuer's Shares in any jurisdiction in which such offer or sale would be unlawful. The Shares will not be registered under the securities laws of Australia, Canada, Japan or the United States.

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The date of this Prospectus is 17 December 2010





## Summary

DECEMBER 2010



## 1. NOTICE TO INVESTORS

This Summary should be read as an introduction to a Prospectus of Nýherji hf. and is qualified in its entirety by the more detailed information elsewhere in the Prospectus. Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor. This Summary forms a part of a Prospectus which consists of this Summary, a Share Registration Document and a Share Securities Note all dated 17 December 2010. This document constitutes a Summary for the purposes of Directive 2003/71/EC of the European Parliament and of the Council of the European Union (the "European Prospectus Directive") on the prospectus to be published when securities are offered to the public or admitted to trading, and of Commission Regulation no. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council 4 November 2003. The Commission's Regulation has been adopted into Icelandic law by Icelandic Regulation no. 243/2006 on the transposition of Commission Regulation (EC) no 809/2004 implementing Directive 2003/71/EC as regards information contained in prospectuses etc.

The NASDAQ OMX Iceland hf. has scrutinized and approved the relevant prospectus according to an agreement with the the Financial Supervisory Authority (FME) in Iceland.<sup>1</sup>

Where a claim relating to information contained in the Prospectus is brought before a court, a plaintiff investor may, in accordance with the relevant national legislation of the Contracting Parties to the European Economic Area Agreement, have to bear the costs of translating the Prospectus before legal proceedings are initiated.

Civil liability attaches to those persons who have tabled this Summary, including any translation thereof, and applied for its notifications, but only if this Summary is misleading, inaccurate or inconsistent when read together with other parts of the Prospectus.

Information in the Prospectus, should not be considered or construed as a promise by the Issuer, Manager or other parties, of future success in either operations or return on investment. Investors are reminded that investing in securities entails risk as the decision to invest is based on expectations and not promises. Investors must primarily rely on their own judgement regarding any decision to invest in the securities issued by Nýherji bearing in mind the business environment in which Issuer operates, anticipated profits, external conditions, and the risk inherent in the investment itself. Prospective investors are advised to contact independent experts such as financial institutions to assist them in their assessment of securities issued by Nýherji hf. as an investment opportunity. Investors are advised to consider their legal status and any tax implications, which a purchase of securities issued by Nýherji may have, and seek independent advice in that respect.

Since Nýherji's Shares are admitted to trading on the Main Market of NASDAQ OMX Iceland, any information that in the opinion of the Issuer could have a significant impact on the market price of its securities is to be made publicly available in the European Economic Area in accordance with governing rules, regulations and legislation effective at the time. Publication of information is subject to provisions of the Act on Securities Transactions, no. 108/2007, and a regulation no. 707/2008 on Provision of information and Notification Requirements in accordance with Act No. 108/2007 on Securities Transactions.

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<sup>1</sup> In accordance with an agreement dated 10 December 2009, between the FME and the NASDAQ OMX Iceland on scrutinising and approval of prospectuses and public listing of securities, in which i.e. FME entrusts the NASDAQ OMX Iceland with the approval of prospectuses for securities which are to be traded on the NASDAQ OMX Iceland and with public listing of securities.

## 2. NEW SHARES ADMITTED TO TRADING

### 2.1 Issuer

Nýherji hf., ID-No. 530292-2079, Address: Borgartún 37, 105 Reykjavík, Iceland.

### 2.2 Manager and legal advisor

Manager for the purpose of admission of the 92,000,001 New Shares to trading is Arion Bank hf. – Corporate Advisory, Icelandic ID-No. 581008-0150, Address: Borgartún 19, 105 Reykjavík, Iceland.

Tómas Jónsson, supreme court attorney, at Reykjavík Law Firm (Lögfræðistofa Reykjavíkur ehf., Icelandic ID-No. 560500-2890), with its registered office at Borgartún 25, 105 Reykjavík, Iceland has advised the Issuer as to Icelandic law on legal matters in connection with issues related to the 120,000,000 Share increase described in this Share Registration Document.

### 2.3 Total issued Shares and authorised Share increase

The total issued Shares in Nýherji hf. amounts to 307,999,999 Shares as at the date of this Share Securities Note, all fully paid. Of this the Issuer holds 3,849,224 own Shares.<sup>2</sup> Own Shares are all held by the parent company. By law the Company's own Shares do not carry voting rights and are therefore not active. Shares issued by the Company are all of same class and not issued in different classes. All active Shares have the same rights, including voting rights. On 16 December 2010 there were 277 shareholders in Nýherji hf.

The Issuer's board of directors decided on 30 August 2010, subject to a number of conditions, to increase the Issuer's Shares by 120,000,000 in accordance with its authorisation in Article 2.1 of the Issuer's Articles of Association as of 19 February 2010. The Share increase is a part of the refinancing of the Company's debt described above. The Company concluded agreements with its creditors on the restructuring of the Company's long-term liabilities at the end of September 2010 and reached agreements with investors on a Share increase. Each part of this refinancing, including both the payment of increased Share capital and the settlement of agreements to the banks, was subject to each other.

The 120,000,000 Shares were subscribed for by nine Investors in September 2010 at the price rate ISK 7.00 per Share or for a total price of ISK 840,000,000. The estimated cost of the issue is ISK 16 million (or net of tax ISK 13 million) and the estimated net proceeds amount to ISK 824 million, mainly used to reduce long-term borrowings in accordance with the agreements with the banks published 29 September 2010.

The 23% of the total purchase price was paid in September and the remaining 77% is to be paid in December, as soon as this Prospectus has been published. The New Shares shall be paid for into a specified bank account of the Issuer at Arion Bank, as further described in the payment instructions sent to each Investor. The New Shares will be delivered through Arion Bank to each Investor as soon as they have been admitted to trading, given that the Investor has paid in full for his New Shares in a correct manner.

The Share increase was made public on 29 September 2010, which was as soon as possible due to the conditions which the increase was subject to. The first 27,999,999 Shares of the increase were issued on 30 September 2010, which increased the total issued Shares to the current status of 307,999,999 Shares as at the date of this Prospectus, and were admitted to trading on 8 October 2010. The board of directors intends to issue the remaining 92,000,001 New Shares of the increase on 20 December 2010, which will further raise the number of total issued Shares from 307,999,999 Shares to 400,000,000.

These New Shares are granted rights within the Issuer as of the date of registration of the increase of Share capital which is expected to be the same as issue date. As Shareholders in the Company waived their pre-

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<sup>2</sup> 3,849,224 Shares are registered under the name of Issuer, but thereof 50,000 Shares fully paid by investors who have not made necessary arrangements to receive the Shares

emptive rights in respect of any of these 120,000,000 Shares, the proportional holding of other Shareholders is diluted by 30.0% (calculated as a percentage of the total issued shares past the issue of the New Shares) by the issue of these 120,000,000 Shares.

Shareholders have not decided or authorised any further increase of Shares in the Company than described above.

## 2.4 Investors

The table below shows the Investors who subscribed for 120,000,000 new Shares in September 2010 as made public 29 September 2010 along with 1,250,001 of the Issuer's own Shares.

<b>Placement of Shares September – December 2010</b>			<i>Proportional holding (voting %) before and after 120m Shares issue</i>		
<i>Investor</i>		<i>% of placement</i>	<i>Shares</i>	<i>Before</i>	<i>After</i>
Stafir lífeyrissjóður	Pension fund	23.6	28,571,429	3.8	9.8
Lífeyrissjóður verslunarmanna	Pension fund	23.6	28,571,429	3.3	9.5
Vátryggingafélag Íslands hf.	Institutional investor	21.6	26,250,001	0.0	6.6
Söfnunarsjóður lífeyrisréttinda	Pension fund	9.1	11,000,000	0.0	2.8
Sameinaði lífeyrissjóðurinn	Pension fund	8.8	10,714,285	0.0	2.7
Landssjóður hf., úrvalsbréf	Mutual fund	5.9	7,142,857	0.1	1.9
Stefnir - Ís-15	Mutual fund	2.9	3,500,000	0.1	1.0
Árni Vilhjálmsson	Deputy chairman of the Issuer's board	2.5	3,000,000	0.1	0.9
Útboð og samningar ehf.	Holding company	2.1	2,500,000	0.0	0.6
<b>Total</b>		<b>100</b>	<b>121,250,001</b>	<b>7.4</b>	<b>35.7</b>
<i>Source</i>			<i>Shares</i>		
Own Shares delivered 7 October 2010			1,250,001		
Shares issued 30 September 2010			27,999,999		
New Shares intended to be issued December 2010			92,000,001		
<b>Total</b>			<b>121,250,001</b>		

## 2.5 Trading and admission to trading

Shares in Nýherji hf. are traded on the Main Market of NASDAQ OMX Iceland under the ticker symbol "NYHR". The Issuer's board of directors has not adopted any resolution on seeking an admission to trading for the Company's Shares on any other regulated markets than NASDAQ OMX Iceland. The Issuer's board of directors has requested that NASDAQ OMX Iceland admit the New Shares to trading on 22 December 2010. The date when the New Shares will be admitted to trading, which may occur later, will be made public at least one day in advance by NASDAQ OMX Iceland.

No market makers are acting for the Issuer's Shares on the NASDAQ OMX Iceland.

## 2.6 Issue and Share characteristics

All issued Shares in Nýherji hf. are created under the Act respecting Public Limited Companies, no. 2/1995, see in particular section V under the heading "*Increase of Share Capital and Subscription Rights*" of the Act.

All the Shares of the Issuer are of the same class and carry equal rights. The Issuer's Shares carry no special rights and no restrictions are placed on them. The Issuer's Shares enjoy all rights provided for according to the Act respecting Public Limited Companies, no. 2/1995, including but not limited to: the right to vote at

Shareholders' meetings, the right to receive dividend when declared, the right to exercise pre-emptive rights to new Shares, unless waived, and the right to a portion of the Issuer's assets upon liquidation, all proportionately according to Share ownership, statutes and the Issuer's Articles of Association in effect at any given time. Shareholders do not have other rights to a share in the Issuer's profit. Shareholders are not obliged to redeem their Shares unless otherwise provided by law.

The Issuer's Shares are all issued electronically at the Icelandic Securities Depository (Verðbréfasíkráning Íslands; ISD), Laugavegur 182, 105 Reykjavík, Iceland. The Shares are registered at the ISD under the name of the relevant Shareholder or his/her nominee. "NYHR" is the symbol for the Issuer's Shares in the ISD clearing and settlement system. The ISIN code of the Shares is IS0000000396. The currency of the securities issue is ISK.

### 3. SHAREHOLDERS

To the knowledge of the Issuer, one Shareholder holds more than 10% of the active Shares in Nýherji hf. as of 16 December 2010 prior the intended issue of the 92,000,001 New Shares and five other Shareholders hold more than 5%. The 5% is the first notification threshold of major holdings under the Act no. 108/2007 on Securities Transactions.<sup>3</sup> These are Vænting hf. with 26.3% of active Shares and Áning-fjárfestingar ehf., Gildruklettur ehf., Stafir lífeyrissjóður, Lífeyrissjóður verslunarmanna and ALMC hf., each with 5.2-9.8% of active Shares. These six largest shareholders own a total of 59.1% of the active Shares.

When adjusted to the issue of the 92,000,001 New Shares, one Shareholder holds more than 10% of active Shares and that is Vænting hf., still the largest Shareholder, with 20.2% of adjusted active Shares. Five Shareholders hold more than 5% of the adjusted active Shares in Nýherji hf. post the intended issue of the New Shares. These are Stafir lífeyrissjóður, Lífeyrissjóður verslunarmanna, Áning-fjárfestingar ehf., Vátryggingafélag Íslands hf. and Gildruklettur ehf. with 5.2-9.8% each. These six largest Shareholders own a total of 58.8% of the active Shares when adjusted to the intended Share issue.

Share registry 16 December 2010				Adjusted to 92,000,001 New Shares			
Shareholder	Shares	% holding and voting		Shareholder	Shares	% holding and voting	
Vænting hf.	79,857,172	25.9	26.3	Vænting hf.	79,857,172	20.0	20.2
Áning-fjárfestingar ehf.	29,723,031	9.7	9.8	Stafir lífeyrissjóður	38,904,762	9.7	9.8
Gildruklettur ehf.	20,581,725	6.7	6.8	Lífeyrissjóður verslunarm.	37,571,429	9.4	9.5
Stafir lífeyrissjóður	17,476,190	5.7	5.7	Áning-fjárfestingar ehf.	29,723,031	7.4	7.5
Lífeyrissjóður verslunarm.	16,142,857	5.2	5.3	Vátryggingafélag Íslands hf.	26,250,001	6.6	6.6
ALMC hf.	15,902,553	5.2	5.2	Gildruklettur ehf.	20,581,725	5.1	5.2
Fiskveiðahlutafél. Venus hf.	14,032,816	4.6	4.6	ALMC hf.	15,902,553	4.0	4.0
Benedikt Jóhannesson	12,384,363	4.0	4.1	Fiskveiðahlutafél. Venus hf.	14,032,816	3.5	3.5
Benedikt Sveinsson	10,699,791	3.5	3.5	Benedikt Jóhannesson	12,384,363	3.1	3.1
Den Danske Bank A/S	8,548,600	2.8	2.8	Söfn.sjóður lífeyrisréttinda	11,000,000	2.8	2.8
<b>10 largest total</b>	<b>225,349,098</b>	<b>73.2</b>	<b>74.1</b>	<b>10 largest total</b>	<b>286,207,852</b>	<b>71.6</b>	<b>72.2</b>

<sup>3</sup> See item 1 of Art. 78 in the Act where it is stated: "Where a holder of shares acquires or disposes of shares of an issuer whose shares have been admitted to trading on a regulated market, a notification shall be sent in a verifiable manner to the issuer in question and to the Financial Supervisory Authority if, as a result of the acquisition or disposal, the proportion of voting rights of the holder of shares reaches, exceeds or falls below the thresholds of: 5, 10, 15, 20, 25, 30, 35, 40, 50, 66 2/3 and 90%. "Holder of shares" shall mean any natural or legal person directly or indirectly holding: 1. Shares in the issuer in its own name and on its own account; 2. Shares in the issuer in its own name but on behalf of another natural person or legal person; or 3. Depository receipts, in which case the holder of the depository receipt shall be considered as the holder of the underlying shares represented by the depository receipt."

Hrómundur ehf.	7,734,704	2.5	2.5	Sameinaði lífeyrissjóðurinn	10,714,285	2.7	2.7
Vátryggingafél. Íslands hf.	6,250,000	2.0	2.1	Benedikt Sveinsson	10,699,791	2.7	2.7
Þórður Sverrisson	6,180,107	2.0	2.0	Den Danske Bank A/S	8,548,600	2.1	2.2
Jafet Ólafsson	5,475,205	1.8	1.8	Hrómundur ehf.	7,734,704	1.9	2.0
Hólmur ehf.	5,020,000	1.6	1.7	Landssjóður hf,úrvalsbréf	7,392,857	1.8	1.9
Vigdís Jónsdóttir	4,489,852	1.5	1.5	Þórður Sverrisson	6,180,107	1.5	1.6
Almenni lífeyrissjóðurinn	3,333,334	1.1	1.1	Jafet Ólafsson	5,475,205	1.4	1.4
Einar Sveinsson	3,051,278	1.0	1.0	Hólmur ehf.	5,020,000	1.3	1.3
Audur Invest Holding SA	2,978,480	1.0	1.0	Vigdís Jónsdóttir	4,489,852	1.1	1.1
Söfn.sjóður lífeyrisréttinda	2,750,000	0.9	0.9	Stefnir - Ís-15	3,798,870	0.9	1.0
<b>20 largest total</b>	<b>272,612,058</b>	<b>88.5</b>	<b>89.6</b>	<b>20 largest total</b>	<b>356,262,123</b>	<b>89.1</b>	<b>89.9</b>
257 other total	31,538,717	10.2	10.4	257 other total	39,888,653	10.0	10.1
<b>277 voting Shareh. total</b>	<b>304,150,775</b>	<b>98.8</b>	<b>100</b>	<b>277 voting Shareh. total</b>	<b>396,150,776</b>	<b>99.0</b>	<b>100</b>
Nýherji hf. - Own Shares*	3,849,224	1.2		Nýherji hf. - Own Shares*	3,849,224	1.0	
<b>Total issued Shares</b>	<b>307,999,999</b>	<b>100</b>		<b>Total issued Shares</b>	<b>400,000,000</b>	<b>100</b>	

\* 3,849,224 Shares are registered under the name of Issuer, but thereof 50,000 Shares fully paid by investors who have not made necessary arrangements to receive the Shares

## 4. MEMORANDUM AND ARTICLES OF ASSOCIATION

### 4.1 Share capital

Shareholders' meetings may decide on an increase in the Share capital of the Company, whether through subscription to new Shares or through the issue of bonus Shares, based on the rules that apply to the amendment of the Issuer's Articles of Association. Shareholders have pre-emptive rights to increased Share capital in proportion to their holdings in the Company. If a Shareholder does not exercise all of his right to subscribe, other Shareholders are entitled to an increased right to subscription. The Shareholders' pre-emption rights may be waived by the Shareholders by a resolution passed with the approval both of 2/3 of the votes cast and Shareholders controlling at least 2/3 of the Shares in the Company represented at the meeting, cf. Article 34 of the Act no. 2/1995 respecting Public Limited Companies.

According to the Issuer's Annual General Meeting on 19 February 2010, the board of directors may purchase up to 10% of the Company's own Shares. The Shares' purchase price may deviate by up to +/-20% from the market price of the Shares registered on the NASDAQ OMX Iceland. No limit is set on this authorisation regarding the number of Shares purchased each time. The board of directors' authorisation to purchase own Shares can only be valid for 18 months at a time and this authorisation is valid for 18 months counting from 19 February 2010.

According to Article 104 of the Act no. 2/1995 respecting Public Limited Companies, the Company is not permitted to grant credit, pledge or guarantee against Share purchase in the Company, except in the case of employees or related companies purchasing Shares.

The Shares are issued electronically at the Icelandic Securities Depository (Verðbréfaskráning Íslands hf.), pursuant to the Act no. 131/1997 on Electronic Registration of Title to Securities. Once a Shareholder has paid in his share in full to the Company, he shall be issued an electronic certificate in a securities depository and a registered title which confers on him the full rights provided for in the Issuer's Articles of Association. Transfer of Shares becomes effective at registration with the securities depository.

#### **4.2 Action necessary to change the rights of Shareholders**

The Shareholders are obligated, without any separate declarations from them, to respect the provisions of the Issuer's Articles of Association as presently adopted or as subsequently altered by lawful amendment. Shareholders shall not, neither with the Issuer's Articles of Association nor with any amendments to them, be obliged to increase their shareholding in the Issuer or be subject to redemption of their Shares.

The Shareholders are not liable for the obligations of the Issuer in excess of their Shareholding in the Issuer unless the Shareholders agree to such liability through a separate acknowledgement. According to article 2.6 in the Company's Articles of Association the above mentioned provisions cannot be amended or abolished through any resolution of a Shareholders' meeting.

#### **4.3 Disclosure requirements**

As Nýherji's Shares are traded on the Main Market of NASDAQ OMX Iceland, the Company is subject to the disclosure requirements set out in Act no. 108/2007 on Securities Transactions, government regulations and Rules for Issuers of Financial Instruments listed on the NASDAQ OMX Iceland. Act no. 108/2007 on Securities Transactions stipulates for example rules that apply to changes in the ownership of substantial holdings in a company which has had one or more classes of its Shares admitted to trading on a regulated securities market (listed company). According to the Act, a substantial holding is 5% of voting rights or the nominal value of Share capital, and multiples thereof of up to 40%, as well as 50%, 66.67% and 90%. When a party acquires a substantial holding, or increases a holding to exceed these limits, or reduces a holding to fall below these limits, the party must immediately give notice to the FME and to the Company.

#### **4.4 Publication of information**

Since the Company's Shares are admitted to trading on the Main Market of NASDAQ OMX Iceland, any information that in the opinion of the Issuer could have a significant impact on the market price of its securities is to be made publicly available in the European Economic Area in accordance with governing rules, regulations and legislation effective at the time. Publication of information is subject to provisions of the Act no. 108/2007, on Securities Transactions and Regulation no. 707/2008, on Provision of Information and Notification Requirements in accordance with Act no. 108/2007 on Securities Transactions.

#### **4.5 Tax issues**

The Shares in the Company are subject to taxation according to law in effect at any given time. Investors are advised to seek external tax advice on the tax implications of any investment in the Shares.

The Issuer's Shares are subject to stamp duty in Iceland, amounting to 0.5% of the Shares' nominal value, which the Issuer shall pay within two months from the issue of the Shares. Stamp duty has been paid for all 307,999,999 issued Shares. Stamp duty for the 92,000,001 New Shares intended to issue on 20 December 2010 is to be paid within two months from issue date.

The Issuer is obliged to retain PAYE taxes on dividend payments, according to Article 3, paragraph 2 and Article 5, paragraph 4, of Act no. 94/1996 on Withholding of Tax on Financial Income. For Icelandic parties other than those exempt from PAYE tax on capital earnings, the PAYE tax is a final taxation. As regards parties living abroad, it must be established whether there is a double taxation agreement with the state where the party in question resides and, if so, it must be established whether there is any taxation payable in addition to that in Iceland.

Profit from the sale of Shares in the Company is taxable in Iceland. As regards parties living abroad, it must be established whether there is a double taxation agreement with the state where the party in question resides and, if so, it should be determined which state has the right of taxation.

Shares in the Company fulfil the conditions of item 1 of section B of Article 30 of Act on Income Tax no. 90/2003, with subsequent amendments. That provision contains rules concerning the deductibility of increased investments in Shares before the end of 2002 from the income tax base.

#### **4.6 Shareholders' meetings**

At Shareholders' meetings each share carries one vote. It is not permitted to exercise voting rights for the Company's own Shares.

A Shareholders meeting shall be called with at least three weeks' notice (requirement for listed companies according to Companies Act) and with maximum four weeks' notice (according to Companies Act). Shareholders shall be notified of a Shareholders meeting with an advertisement published in widespread newspapers or by means of other provable manner and the notification shall be made publicly available in the European Economic Area. The Annual General Meeting shall be held before end of June each year, which is within six months from the end of each fiscal year.

The right to attend Shareholders' meeting have Shareholders, their representatives and advisors of the Shareholders. A Shareholder may have his representative attend a Shareholders' meeting on his behalf. A representative shall then submit a dated power of attorney in writing of which the date shall be maximum one year prior to the meeting. Such power of attorney can be validly revoked at any time.

As a listed company, the Issuer is in duty bound to afford Shareholders an opportunity of casting votes on a Shareholders' meeting by letter or electronically, without being present.

#### **4.7 Board of directors**

The Annual General Meeting shall annually elect three persons and one in reserve to the board of directors. The eligibility is subject to Icelandic law. The election of the board of directors shall be as follows:

Persons willing to become members of the board of directors shall inform the board of directors in writing at least seven days before the Shareholders' meeting and provide information required by the Companies Act. The eligibility is limited to the above procedure. In a Shareholders' meeting the process is limited voting, that is only those who have declared their candidacy with necessary notice can be elected. Information on candidates for the board of directors shall be available at the Company's office no later than two days prior to the Shareholders' meeting. A proportional voting or cumulative voting shall be used for the voting if Shareholders holding at least 1/10 (one tenth) of active Shares request. Such a request shall be submitted to the Company's board of directors at least five days before the Shareholders' meeting. In case of both a proportional and cumulative voting is requested, then the board shall be voted by a cumulated voting.

The board of directors shall elect a chairman and vice-chairman among its members and shall otherwise divide tasks among themselves as it deems appropriate.

The board of directors wield the supreme power in the Company between Shareholders' meetings. The board sets out the operational objectives of the Company while safeguarding the Company's and its Shareholders' interests. The majority of the board of directors can bind the firm.

## **5. COMPANY OVERVIEW**

### **5.1 Objectives, regulatory issues and licences**

According to Article 1.3 of the Issuer's Articles of Association, the objectives of the Company is to offer complete solutions in the fields of information technology to its customers, including software development, provision of hardware and office equipment, consultancy and related service, and additionally the Company invests in related business.

Nýherji hf. is registered in Iceland and operates pursuant to Act no. 2/1995 respecting Public Limited Companies. The Group's international operations are subject to the applicable laws in each country where such activities are carried out, as well as the general laws and regulations of these countries regarding the operation of companies and conduct generally.

The nature of the operations of the Company is such that they need licences from relevant parties relating to service, software and hardware provided to customers and to be able to purchase equipment, spare parts and maintenance service from suppliers at current terms.

## **5.2 Milestones in Nýherji's history**

Nýherji hf. was incorporated 23 January 1992 and started operation on 2 April 1992 by the merger of IBM á Íslandi hf. (IBM Iceland) and Skrifstofuvélar-Sund hf. Ever since Nýherji was established, the Company has been one of the strongest players in the Icelandic IT market. Its founders were IBM Denmark, Draupnissjóðurinn hf., Vogun hf., Skrifstofuvélar-Sund hf. and a number of management staff of IBM Iceland.

The Company's operations were restricted to Iceland until 2005. At the beginning of the 2000s, Nýherji focused on strengthening its consulting and solutions division in SAP for projects in Iceland and for its clients overseas. The Company acquired AppliCon A/S in Denmark in 2005 and simultaneously established Nýherji A/S. AppliCon ehf. was founded in Iceland the same year and the holding company Applicon Holding ehf. where the Applicon operations in Iceland and Denmark belong to. Applicon companies were subsequently founded in the United Kingdom and Sweden. In 2006 AppliCon Solutions A/S and AppliCon Solutions Ltd. was set up. AppliCon acquired Marquardt & Partners A/B in 2008, which specialised in software and advisory services for financial companies. The operation of AppliCon in Sweden was transferred into Marquardt & Partners A/B and the name of that company changed to Application Consulting Sweden AB. The name of the parent company, AppliCon in Sweden, was then changed to Application Consulting Sweden Holding AB.

In February 2008 Nýherji acquired TM Software hf. and its subsidiaries. A new business model was prepared and introduced for Nýherji's activities in Iceland, which was announced at the beginning of October 2008. The intention was to sharpen the focus and specialization of subsidiaries along with increasing the coordination and efficiency of the Group's operation. Nýherji hf. is the parent company of the following subsidiaries; Skyggfir ehf., Sense ehf., TM Software Origo ehf. (then Origo ehf.), Applicon Holding ehf., eMR hugbúnaður ehf., SimDex ehf., Klak ehf., Viðja viðskiptaumsjón ehf. and Vigor ehf. Nýherji hf. is also responsible for sales and product development of computer and technical equipment. Each subsidiary specialises in a defined area of services, software or consultancy, with the goal of meeting client needs in that specialist field.

Shares in Nýherji hf. have been traded on the Icelandic stock exchange since 30 October 1997 (Verðbréfaþing Íslands hf. at that time, now the NASDAQ OMX Iceland hf.). Before listing, the Shares were traded on the Icelandic open bidding market (Opni tilboðsmarkaðurinn) from 30 November 1995.

## **5.3 Description of the business and organisational structure**

Nýherji's business segments are two: Products and services and Software and consultancy. The majority of the Company's business is conducted via subsidiaries, both in Iceland and abroad. The list below shows how income generating companies of the Group are categorised under each segment.

### **Products and services**

- Nýherji hf. is the parent company and is responsible for sales and product development of computer and technical equipment.
- Sense ehf. specialises in digital solutions, such as audio and video equipment.
- Skyggfir ehf. upplýsingaþjónusta specialises in design, installation, maintenance and operation of IT solutions. It also specialises in implementation of ICT solutions and in hosting and managed services where Skyggfir takes responsibility for operating the customer's IT environment.

- Dansupport A/S specialises in IT-infrastructure and IP based Unified Communications Solutions for small and medium-sized companies in the Danish market.

#### **Software and consultancy**

- AppliCon Holding ehf. is the parent company of companies focusing on SAP business software sector, financial solutions and specialised sector-based solutions.
  - AppliCon ehf. in Iceland
  - AppliCon A/S in Denmark
  - AppliCon Solutions A/S in Denmark
  - Application Consulting Sweden A/B (AppliCon Sweden)
  - AppliCon Solutions Ltd., in UK
- TM Software Origo ehf. focuses on more extensive software development and systems integration.
- Vigor ehf. offers ERP solutions and integrated business software for the energy sector.
- eMR hugbúnaður ehf. develops software solutions for the healthcare sector in Iceland.
- Viðja viðskiptaumsjón ehf. handles centralised support services and operations for Nýherji hf. and its Icelandic subsidiaries.
- Klak ehf. is a privately run innovation center, which focuses on assisting entrepreneurs in founding companies and enabling start-up companies to grow and flourish.

The segment Products and services includes reselling, distribution and the servicing of computer systems, IT infrastructure, telephone systems, printing solutions, audio and visual solutions and similar equipment. This area of business also includes reselling licences of infrastructure software necessary for running businesses. The Group provides its customers with a diverse range of advisory services and other services relating to the design, installation and maintenance of such solutions. A service agreement lasting several years is often made with customers on the maintenance of the equipment they have purchased. The advisory services may also involve Nýherji taking over the responsibility for centralized computer systems for its customers or running the systems which are located at the customers' work place. This kind of business support is an increasingly important part of the Group's business.

The segment Software and consultancy includes the sale, advice, adaptation, implementation, testing and training related to business software for third parties. Software solutions have been developed for specific target groups such as financial companies, insurance companies, fisheries companies, local authorities, transportation companies and healthcare institutions. This area of business also includes the development and sale of customized software solutions.

#### **5.4 Board of directors and senior management**

The members of the Board of directors of the Company are: Benedikt Jóhannesson (chairman), Árni Vilhjálmsson (deputy chairman), Guðmundur Jóhann Jónsson and Jafet S. Ólafsson (alternate).

Þórður Sverrisson is the CEO of the Company and is responsible for the day-to-day operations, in accordance with the policy and decisions of the board. It is the CEO's role to ensure that the operations of the firm and its subsidiaries are in line with its Articles of Association and current legislation. A deputy CEO is Kristinn Þór Geirsson. The MD of Skygginn ehf. upplýsingaþjónusta is Friðrik Þór Snorrason. The MD of AppliCon A/S is Henrik R. Møller.

#### **5.5 Employees**

The Group's employees counted 540 full-time equivalent positions on 30 September 2010. As of 1 December 2010 the number of employees has reduced slightly, or around 1%.

<b>Full-time equivalent positions</b>	<b>30.09.10</b>	<b>31.12.09</b>	<b>31.12.08</b>	<b>31.12.07</b>	<b>31.12.06</b>
Total at the end of period	540	607	690	482	351
Average during the period	565	641	719	446	337
Changes between periods	-67	-83	208	131	

Nýherji and its subsidiaries have had to respond to the sharp contraction in the market by cutting back on staff and reducing wage costs. There were 540 positions on 30 September 2010 compared to 690 at the beginning of 2009, decreasing by 150 full-time equivalent positions during 2009 and the first nine months of 2010. In February 2009, all salaries were cut by 10%, and staffing was reduced in stages during the year. Because the employees of various individual divisions of Nýherji and subsidiaries have a wealth of experience and expertise, the Company has attempted to protect jobs to the maximum extent possible, and staff members have not been laid off unless project flow has made it unavoidable. If employees have to be laid off, the Company attempts to assist them in interviews with employment agencies and in other ways as well. The Company hopes that, when demand returns to normal, it can again seek assistance from the many excellent employees it has been forced to part with.

## **5.6 Auditors**

A state authorised public accountant or accounting firm is elected as the auditor at each annual general meeting of Nýherji hf. for a term of one year. The qualifications and eligibility of the auditor at elections are governed by law. The chartered accountants and registered auditor of Nýherji hf. and all Icelandic subsidiaries of the Group are KPMG hf. ID-No. 590975-0449, Borgartún 27, 105 Reykjavík, Iceland. The auditor of KPMG hf. responsible for Nýherji is Jón S. Helgason, ID-No. 050269-3619. He signed KPMG's review on the financial statements for the first nine months 2010 and the review on the pro forma consolidated statement of financial position as of 30 September 2009. The auditor of KPMG hf. responsible for Nýherji for the fiscal year 2009 was Sæmundur Valdimarsson, ID-No. 070263-4409 and for the period of 2007-2008 was Sæmundur Valdimarsson and Ólafur Már Ólafsson, ID-No. 090368-3469.

## **5.7 Related party transactions**

The Issuer's related parties are defined according to IAS 24.

No unusual transactions have taken place between Nýherji and its related parties. The board believes that all of the related party transactions are conducted on an arm's length basis, both transactions between entities within the Group and transactions between Group companies and related parties who are not part of the Group. Nýherji engages in and expects to continue to engage in transactions with its related parties.

Remuneration of the Group's senior management and board of directors, along with information on holdings in the Issuer's Shares, is stated under the heading "5.4 Holdings, remuneration and benefits".

There is no effect on the Group's financial statements of any relationship between the Group's subsidiaries and the Group. The funding of the Group is centralised. The Group's parent company has therefore provided loans and guarantees to its subsidiaries.

The Issuer has guaranteed two loans amounting to ISK 32.5 million each, owed by two of its managing directors totaling ISK 65 million. One of the managing directors is part of the group of six managers stated in the remuneration table in chapter 5.4 above.

The first nine months 2010 reflects the effects of the bankruptcy of Roka ehf., further described in chapter "1.5.6.4 Litigation and disputes". During the period from 1 January 2007 to the date of this Share Registration Document, no losses on receivables from related parties and loans and deposits to related parties or write-down for such losses have been incurred apart from Roka ehf.

## 6. FINANCIAL INFORMATION

This section gives an overview of Nýherji's financial historical performance. Nýherji's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The financial statements for 2007, 2008 and 2009 have been audited and the nine months for 2010 have been reviewed by Nýherji's auditors KPMG hf.

The presentation is in accordance with revised IFRS IAS 1 *Presentation of Financial Statements (2007)*, which came effective as of 1 January 2009. As a result, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented for 2008 and 2007 so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per Share.

The reviewed nine month financial statements 30 September 2010 include the issue of 120,000,000 new Shares at the price of ISK 7.0 per Share for a total price of ISK 840 million. Thereof unpaid Share capital in the amount of ISK 644 million is capitalised in the statement of financial position as at 30 September.

### 6.1 Pro forma 30.09.10

On 29 September 2010 it was announced that the Company had made agreements on refinancing its long-term obligations. Nýherji has signed agreements that same date with its largest creditors, Arion Bank hf. and Íslandsbanki hf., on the reorganization of long-term loans including a sale and leaseback of its real estate at Borgartún 37, and signed agreements with investors on an increase of Share capital. The documentation with the banks was finalised in December 2010 and therefore a part of the refinancing was recorded in the Company's accounts after 30 September 2010. To reflect on the remaining part of the refinancing, a pro forma financial position as at 30 September 2010 has been prepared and reviewed. A pro forma income statement was not prepared as the refinancing causes no material changes to the operating results.

The Company's real estate at Borgartún 37 has been sold to an investment company controlled by Íslandsbanki hf. at a price of ISK 1,650 million and subsequently the Company decreases its debt by the same amount. At the same time the Company has signed a 15-year lease agreement on Borgartún 37. This transaction was recorded in the Company's accounts after 30 September 2010 and adjusted for in the pro forma financial position below. Property and equipment decrease by ISK 1,583 million, which is the book value of the real estate net of depreciation, deferred tax assets decrease by ISK 12 million and equity increases by ISK 56 million relate to the sale. The net effect of the sale of the real estate at Borgartún 37 on the profit or loss accounts is approximately ISK 10 million per month in expenses taking into consideration the lease agreement on Borgartún 37 less the real estate expenses related to the ownership of the property. In addition, the Company no longer pays rent for Urðarhvarf as of 21 March 2010.

The increased Share capital amounted to ISK 840 million, where 120,000,000 new Shares equal to 42.9% share increase were sold at the price of ISK 7.0 per Share. The estimated cost of the Share issue is ISK 16 million (ISK 13 million net of tax) and the net proceeds mainly used to reduce long-term borrowings in accordance with the agreements with the banks. At 30 September 2010 the increase was recorded in full in the Company's accounts, but thereof ISK 644 million as unpaid Share capital since due in December 2010 following the issue of this Prospectus. In the pro forma financial position below, the intended settlement of this unpaid share capital is adjusted for.

The Company's loan principal was decreased by ISK 113 million due to a write-down simultaneously with restructuring from foreign to domestic loans. Loans and borrowings have been adjusted by this amount in the pro forma financial position below, deferred tax assets decreased by ISK 20 million and equity increased by ISK 94 million.

In the pro forma financial position, trade and other payables decrease by ISK 164 million which is the accumulated accrued interest on the Company's loans and is added to the current loans and borrowings.

Additionally, the pro forma financial position shows reclassification of the Company's loans and borrowings from non-current to current.

The adjustments made in pro forma financial position as at 30 September 2010 reduce the Company's interest-bearing debt to ISK 2,855 million and increase the equity ratio to 30.8%.

## 6.2 Consolidated statement of comprehensive income

<b>Consolidated statement of comprehensive income</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>	<b>2008*</b>	<b>2007*</b>
<i>(ISK m)</i>	<i>9 m</i>	<i>9 m</i>			
Sales of goods and services	10,273	10,339	14,332	14,913	11,301
Cost of goods and service sold	(4,598)	(4,343)	(6,355)	(6,820)	(6,318)
<b>Gross profit</b>	<b>5,675</b>	<b>5,996</b>	<b>7,977</b>	<b>8,092</b>	<b>4,984</b>
Other income	12	11	14	23	54
Salaries and related expenses	(4,162)	(4,521)	(6,080)	(5,952)	(3,295)
Other operating expenses	(1,198)	(1,495)	(1,973)	(1,854)	(1,036)
<b>EBITDA</b>	<b>327</b>	<b>(9)</b>	<b>(62)</b>	<b>309</b>	<b>706</b>
Depreciation	(216)	(152)	(273)	(250)	(106)
Impairment losses on goodwill	-	(180)	(322)	-	-
<b>EBIT</b>	<b>111</b>	<b>(341)</b>	<b>(657)</b>	<b>59</b>	<b>600</b>
Net finance expense	(151)	(504)	(667)	(1,480)	(92)
Effect of bankrupt subsidiary	246	-	-	-	-
<b>Profit (loss) before income tax</b>	<b>207</b>	<b>(845)</b>	<b>(1,324)</b>	<b>(1,421)</b>	<b>508</b>
Income tax	3	(70)	(37)	220	(88)
<b>Profit (loss) for the period</b>	<b>210</b>	<b>(914)</b>	<b>(1,361)</b>	<b>(1,201)</b>	<b>420</b>
Foreign currency translation differences	(78)	45	8	430	(4)
Revaluation of buildings less income tax	-	692	667	-	-
<b>Total comprehensive income (loss) for the period</b>	<b>132</b>	<b>(178)</b>	<b>(686)</b>	<b>(771)</b>	<b>416</b>
<b>Key ratios</b>					
Sales growth	-0.6%	-	-3.9%	32.0%	30.7%
EBITDA growth	3594.6%	-	-120.1%	-56.2%	3.4%
EBIT growth	132.7%	-	-1218.7%	-90.2%	2.8%
Gross margin	55.2%	58.0%	55.7%	54.3%	44.1%
EBITDA margin	3.2%	-0.1%	-0.4%	2.1%	6.2%
EBIT margin	1.1%	-3.3%	-4.6%	0.4%	5.3%
Salaries / sales	40.5%	43.7%	42.4%	39.9%	29.2%
Operating expenses / sales	11.7%	14.5%	13.8%	12.4%	9.2%

\* Figures for 2007 and 2008 have been re-presented so that they are in conformity with the revised standard IFRS IAS 1 Presentation of Financial Statements (2007), which came effective as of 1 January 2009. Figures for 2008 are sourced from the 2009 financial statements but the re-presented figures for 2007 are based on information provided by the Issuer's management.

### 6.3 Statement of financial position

<b>Consolidated statement of financial position</b> <i>(ISK m)</i>	<b>30.09.10</b> <i>Pro forma</i>	<b>30.09.10</b>	<b>31.12.09</b>	<b>31.12.08</b>	<b>31.12.07</b>
Property and equipment	524	2,107	2,103	1,386	1,155
Intangible assets	3,715	3,715	3,958	4,151	1,178
Investments in other companies	-	-	-	-	14
Deferred tax assets	53	85	94	242	-
Long-term notes	17	17	18	38	17
<b>Total non-current assets</b>	<b>4,309</b>	<b>5,924</b>	<b>6,174</b>	<b>5,817</b>	<b>2,364</b>
Inventories	648	648	631	647	694
Trade and other receivables	2,642	2,642	2,406	3,199	2,486
Unpaid Share capital	-	644	-	-	-
Cash and cash equivalents	112	112	385	468	118
<b>Total current assets</b>	<b>3,403</b>	<b>4,047</b>	<b>3,421</b>	<b>4,313</b>	<b>3,298</b>
<b>Total assets</b>	<b>7,711</b>	<b>9,970</b>	<b>9,595</b>	<b>10,130</b>	<b>5,661</b>
Share capital	395	395	275	276	226
Share premium	1,791	1,791	1,084	1,097	153
Reserves	410	1,056	1,139	464	29
Accumulated deficit	(236)	(1,032)	(1,245)	105	1,341
Equity attributable to equity holders of the parent company	2,359	2,209	1,253	1,942	1,750
Non-controlling interest	14	14	11	22	14
<b>Total equity</b>	<b>2,373</b>	<b>2,223</b>	<b>1,264</b>	<b>1,964</b>	<b>1,764</b>
Loans and borrowings	2,097	2,562	1,523	2,669	1,111
Deferred tax liabilities	2	2	3	-	70
<b>Total non-current liabilities</b>	<b>2,099</b>	<b>2,564</b>	<b>1,526</b>	<b>2,669</b>	<b>1,181</b>
Loans and borrowings	758	2,538	4,014	2,343	553
Tax payables	-	-	-	16	-
Trade and other payables	2,481	2,645	2,791	3,138	2,163
<b>Total current liabilities</b>	<b>3,239</b>	<b>5,183</b>	<b>6,805</b>	<b>5,497</b>	<b>2,717</b>
<b>Total liabilities</b>	<b>5,338</b>	<b>7,748</b>	<b>8,331</b>	<b>8,166</b>	<b>3,897</b>
<b>Total equity and liabilities</b>	<b>7,711</b>	<b>9,970</b>	<b>9,595</b>	<b>10,130</b>	<b>5,661</b>
<b>Key ratios</b>					
Equity ratio	30.8%	22.3%	13.2%	19.4%	31.2%
Net interest bearing debt / Equity	1.2x	2.2x	4.1x	2.3x	0.9x
Net interest bearing debt / EBITDA	*10.0x	18.2x	-82.8x	14.7x	2.2x
EBITDA interest coverage	2.2x	2.2x	-0.1x	0.2x	7.4x
EBIT interest coverage	0.7x	0.7x	-1.0x	0.0x	6.3x
Days inventory outstanding (DIO)**	38	38	36	35	40
Days sales outstanding (DSO)***	60	60	56	69	71
Days payable outstanding (DPO)****	56	56	75	80	38

\* Trailing 12 months (first nine months 2010 plus Q4 2009)

\*\* DIO is calculated as: (inventory at end of period/cost of goods and service sold) x 365

\*\*\* DSO is calculated as: (accounts receivable at end of period/sales) x 365

\*\*\*\* DPO is calculated as: (accounts payable at end of period/cost of goods and service sold) x 365

#### 6.4 Cash flow statement

<b>Consolidated cash flow statement</b> <i>(ISK m)</i>	<b>2010</b> <i>9 m</i>	<b>2009</b> <i>9 m</i>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net profit (loss) for the period	210	(914)	(1,361)	(1,201)	420
Working capital provided by (used in) operating activities	327	(9)	(62)	306	695
Net cash (used in) provided by operating activities	(217)	(269)	(59)	79	156
Net cash used in investing activities	(197)	(78)	(149)	(1,450)	(332)
Net cash provided by financing activities	163	166	104	1,638	24
Net (decrease) increase in cash and cash equivalents	(252)	(181)	(104)	267	(151)
Effect of exchange rate fluctuations on cash held	(22)	16	21	83	(3)
Cash and cash equivalents at beginning of the year	385	468	468	118	272
Cash and cash equivalents at the end of the period	112	302	385	468	118

#### 6.5 Working capital statement

The chairman of the board of directors and the CEO, on behalf of the Issuer, declare that in their opinion the Issuer's working capital is sufficient for the Issuer's present requirements.

#### 6.6 Capitalisation and indebtedness

The following tables set forth the consolidated capitalisation and indebtedness as at 30 September 2010. Figures marked as reviewed are according to the Company's reviewed financial statements for the first nine months 2010 and as at 30 September 2010. Figures marked as adjusted are adjusted for the restructuring of the Company's debt made public 29 September 2010 which is in line with reviewed pro forma financial position published in the Company's Share Registration Document dated 17 December 2010.

The reviewed nine month financial statements 30 September 2010 include the issue of 120,000,000 new Shares at the price of ISK 7.0 per Share for a total price of ISK 840 million. Thereof unpaid Share capital in the amount of ISK 644 million is capitalised in the statement of financial position as at 30 September 2010 and the settlement of this Share capital is adjusted for in the tables below. The estimated cost of the issue is ISK 16 million (ISK 13 million net of tax). The estimated net proceeds amount to ISK 824 million. The Share issue is a part of the refinancing of the Company's debt made public 29 September 2010.

The adjustments include the decrease in the Company's interest bearing debt by a total of ISK 2,245 million as a result of the financial restructuring the Company's debt has undergone. That includes a sale of the Company's real estate at Borgartún 37 to Íslandsbanki hf. at a price of ISK 1,650 million. At the same time the Company has signed a 15-year lease agreement on Borgartún 37. The Company reached agreements with Arion Bank hf. and Íslandsbanki hf. on the restructuring of the Company's long-term debt, where the effective debt repayment schedule will be seven to fifteen years, a part of the loans are converted from foreign currency to ISK and their principal decreases. Consequently the Company's interest-bearing debt decreases and amounts to ISK 2,855 million after the financial restructuring pro forma 30 September 2010.

There have not been other material changes in Nýherji's consolidated capitalisation and indebtedness since 30 September 2010.

The Issuer has guaranteed loans totaling ISK 65 million owed by two of its managing directors.

In the capitalisation table, which is the first table below, all liabilities (recourse and non-recourse) are unguaranteed. There is no indirect or contingent indebtedness to disclose in the indebtedness table, which is the second table below. All figures in the tables are in millions of ISK.

<b>Capitalisation</b> <i>(ISK m)</i>	<b>30.9.10</b> <i>Reviewed</i>	<b>Adjustments</b>	<b>30.9.10</b> <i>Adjusted</i>
Guaranteed current debt	-	-	-
Secured current debt <sup>1</sup>	2,538	(1,780)	758
Unguaranteed / Unsecured current debt	2,645	(164)	2,481
<b>Total current debt</b>	<b>5,183</b>	<b>(1,944)</b>	<b>3,239</b>
Guaranteed non-current debt	-	-	-
Secured non-current debt <sup>1</sup>	2,562	(465)	2,097
Unguaranteed / Unsecured non-current debt	2	-	2
<b>Total non-current debt<sup>2</sup></b>	<b>2,564</b>	<b>(465)</b>	<b>2,099</b>
Share capital	395	-	395
Share premium	1,791	-	1,791
Reserves	1,056	(646)	410
(Accumulated deficit) retained earnings	(1,032)	796	(236)
Non-controlling interest	14	-	14
<b>Total equity</b>	<b>2,223</b>	<b>150</b>	<b>2,373</b>
<b>Total capitalisation</b>	<b>9,970</b>	<b>(2,259)</b>	<b>7,711</b>

(1) Assets secured are real estate, receivables, inventories and shares in subsidiaries

(2) Excluding current portion of long-term debt

<b>Indebtedness</b> <i>(ISK m)</i>	<b>30.9.10</b> <i>Reviewed</i>	<b>Adjustments</b>	<b>30.9.10</b> <i>Adjusted</i>
Cash	112	-	112
Cash equivalents	-	-	-
Trading securities	-	-	-
<b>Liquidity</b>	<b>112</b>	<b>-</b>	<b>112</b>
<b>Current financial receivable<sup>1</sup></b>	<b>3,286</b>	<b>(644)</b>	<b>2,642</b>
Current bank debt	800	(450)	350
Current portion of non-current debt	1,738	(1,330)	408
Other current financial debt	2,645	(164)	2,481
<b>Current financial debt</b>	<b>5,183</b>	<b>(1,944)</b>	<b>3,239</b>
<b>Net current financial indebtedness</b>	<b>1,786</b>	<b>(1,300)</b>	<b>486</b>
Non-current bank loans	2,562	(465)	2,097
Bonds issued	-	-	-
Other non-current loans	2	-	2
<b>Non-current financial indebtedness</b>	<b>2,564</b>	<b>(465)</b>	<b>2,099</b>
<b>Net financial indebtedness</b>	<b>4,350</b>	<b>(1,765)</b>	<b>2,585</b>

(1) Current financial receivable includes the unpaid share capital, which is deducted in the adjustments

## 6.7 Corporate outlook

Nýherji's goal is to maintain its leadership position on the overall IT market for its current market segments. The aim of the Group's domestic units is to offer its customers all IT solutions in one place while supporting the specialization of individual units. To be able to accomplish this Nýherji needs to continuously strengthen technical and specialised knowledge level of its experts as well as key management teams and other employees. The importance of working closely with customers is continually increasing and is based on close partnership with regular meetings and presentations of equipment and solutions from Nýherji and its subsidiaries.

The operations of Nýherji and its subsidiaries have improved as a result of streamlining measures and downsizing or discontinuation of less profitable units. General operating expenses have been reduced as well as the number of employees.

The demand for computer equipment and technical solutions has increased in the second half of 2010 compared to the last two years, especially on the corporate market. The sales for audiovisual solutions and sales of consumer equipment has been increasing. Looking at the overall IT market in Iceland it is possible that an accumulated need for IT solutions has been building up for the past two years as companies and public offices have altered the procurement rules in order to reduce cost as much as possible. In the last few months, Nýherji has seen slow but sure improvements in some of its key market areas and the overall IT market is expected to remain at current level or slightly improve in the coming months and throughout the year 2011. However the speed of recovery will vary from one company to another within Nýherji's organization. Market conditions for managed and professional service in Iceland expect moderate growth in the next 12 months. Demand for services is strong both locally and abroad and the pipeline for software sales is also picking up after the banking crisis.

In Denmark, preparation is underway to offer new products and services based on company experts' broad-based expertise to the many Danish companies that use SAP software. The business solutions unit in Sweden primarily focuses on selling solutions and services to banks and financial companies in the Nordic region, including own solutions, which are used in Sweden and Denmark by several of the Nordic countries' largest banks.

There has not been any significant change in the financial or trading position of the Group, other than the refinancing, since the end of September 2010, see chapter "6.3.1 *Pro forma 30.09.10*" in the Registration Document of this Prospectus for further information. Nýherji has no principal investments in progress and the Company has not made any commitments on future investments. However, the Company includes the possibility of selling assets in the range of ISK 400 to 600 million in 2011, in order to reduce its leverage.

The overall aim of Nýherji is to use its broad range of product offerings and services, based on well known brands, to increase its customer base and to strengthen its relationship with current customers. Nýherji will focus on gradual growth in its target markets and may consolidate more its organisation in Iceland and thereby reflecting the changes faced in its operational environment during the last couple of years.

## 7. RISK FACTORS

Investing in shares is subject to numerous risks. The following is a summary of those risk factors the management and board of directors of Nýherji hf. believe are most likely to materially affect the Issuer and any investment made in its Shares.

Prior to making any investment decision regarding Shares in Nýherji, investors should consider all the information in this document and in particular to consider the risks and uncertainties described in Chapter "1 *Risk factors*" of the Share Registration Document and Chapter "1 *Risk factors*" of the Share Securities Note, both documents dated 17 December 2010.

The risks and uncertainties described in these two documents are those that the Issuer believes are most likely to materially affect the Company and any investment made in its Shares. If any, or a combination, of these events occurs, the valuation and trading price of the Shares could decline and investors might lose part or all

of their investment. Additional risks and uncertainties that do not currently exist, that are not presently considered material, or of which Nýherji is unaware may also impair its business and operation. These risks and uncertainties could have a materially adverse impact on the business, liquidity, income, profits, assets, and/or the share price of Nýherji.

#### **Risk factors related to investment in the Issuer's shares**

- Risks inherent in equity investments
- Securities regulation
- Further share capital increase can dilute shareholdings
- The market price of the Issuer's shares may be volatile
- Shareholder structure
- Consideration for the new shares

#### **Operational and market risk**

There is a risk that Nýherji's business may not deliver its stated strategy in full, particularly since the business is susceptible to economic downturns that could affect consumer spending.

The Company faces the risk of losing a significant part of its expertise, experience and business relationships if personnel turnover is high and experienced people leave the Company.

Nýherji is dependent on external economic factors but the economic risk factors have different effects on individual subsidiaries

The Company needs to carefully manage changes in the Group's day-to-day operations, since this can materially impact the Company's financial position and performance.

Changes to Nýherji's applicable laws, new representation of current laws, or the Company becoming subject to different laws, might have an impact on how it continues to conduct its business.

The Group could suffer adverse financial consequences as a result of rescission of financing agreements.

The Group is subject to liquidity risk as the Company extends its larger customers a grace period on its purchases of equipment and services.

The Group could suffer adverse financial consequences as a result of high inflation and increased cost of borrowing.

The Group may require additional capital in the future, which may not be available or may only be available on unfavourable terms.

The Group's financial condition and results of operations may be adversely affected by currency fluctuations.

The nature of the operations of the Company is such that they need licences from relevant parties relating to service, software and hardware provided to customers and to be able to purchase equipment, spare parts and maintenance service from suppliers at current terms. Should these licences be revoked or changes made to them in any way, it might impose a risk to the operations of the Company

The Company faces competition in all its fields of activities. The arrival of new market participants, changes to the largest suppliers and customers, or technological innovations can change market focuses and at the same time the market share of the Company.

Nýherji's subsidiary Roka ehf. was declared bankrupt by the District Court of Reykjanes in March 2010. In January 2009, Roka ehf. had sold part of its assets to Nýherji paid for by [netting of debt](#) and a takeover of part of Roka's debt. One creditors meeting has been held where the legitimacy of the fore mentioned purchase was discussed. A claimant to the estate was given time to decide whether it was willing to guarantee the cost of the estate for a legal proceeding where the legitimacy of the purchase would be

challenged. The claimant has not notified the estate of its stance. If proven, during such legal proceedings, that Nýherji has profited by purchasing the above mentioned assets below fair value, Nýherji may be liable to reimburse the estate by an amount equal to the profit gained, however, not exceeding the damage suffered by the estate from the transaction. Nýherji would be allowed to state its claims forfeited in lieu of the assets received, and enjoy equal status to other claimants with similar claims, if the estate approves the claims.

## **8. DOCUMENTS ON DISPLAY**

This Prospectus is only published in English and electronically and not as a hard copy. For the next twelve months counting from the date of this Prospectus, copies of this Summary, the Share Securities Note and the Share Registration Document, all dated 17 December 2010, who form a prospectus, can be obtained from the Issuer's website ([www.nyherji.is](http://www.nyherji.is)).

For the next twelve months counting from the date of this Prospectus, copies of documents incorporated by reference herein can be obtained from the Issuer's website ([www.nyherji.is](http://www.nyherji.is)) and hard copies of these documents can be obtained from the Issuer's headquarters at Borgartún 37, 105 Reykjavík, Iceland.

- a. Reviewed consolidated financial statements of Nýherji as at and for the nine months ended 30 September 2010
- b. Audited consolidated financial statements along with the annual report of Nýherji hf. as at and for the year ended 31 December 2009
- c. Audited consolidated financial statements along with the annual report of Nýherji hf. as at and for the year ended 31 December 2008
- d. Audited consolidated financial statements along with the annual report of Nýherji as at and for the year ended 31 December 2007

For the next twelve months copies of the Issuer's Articles of Association, dated 30 September 2010, and the valid Articles of Association at any time after that date, can be obtained from the Issuer's website ([www.nyherji.is](http://www.nyherji.is)) and hard copies can be obtained from the Issuer's headquarters at Borgartún 37, 105 Reykjavík, Iceland.







## Share Securities Note

DECEMBER 2010



# TABLE OF CONTENTS

- 1. Risk factors..... 3
  - 1.1 General risks relating to investment in shares ..... 3
  - 1.2 Risk related to investment in the Issuer’s Shares ..... 3
- 2. Key Information..... 5
  - 2.1 Working capital, capitalisation and indebtedness ..... 5
  - 2.2 Declaration of interest ..... 7
  - 2.3 Issue of the New Shares, background and net proceeds ..... 7
  - 2.4 Investors ..... 8
  - 2.5 Use of proceeds ..... 8
- 3. Information concerning the Shares ..... 9
  - 3.1 Share capital and authorisation for Share increase and purchase of own Shares ..... 9
  - 3.2 Trading and admission to trading ..... 10
  - 3.3 Issue and Share characteristics ..... 10
  - 3.4 Right of ownership and transfer ..... 10
  - 3.5 Nominee accounts ..... 11
  - 3.6 General meetings and voting rights ..... 12
  - 3.7 Rights to share in the Issuer’s profits ..... 12
  - 3.8 Shareholders’ agreements ..... 13
  - 3.9 Mandatory takeover bid rules ..... 13
  - 3.10 Squeeze-out and sell-out rules ..... 13
  - 3.11 Dissolution of the Company ..... 13
  - 3.12 Reports to Shareholders ..... 14
  - 3.13 Dilution ..... 14
  - 3.14 Disclosure requirements ..... 14
  - 3.15 Market making ..... 15
  - 3.16 Major holdings ..... 15
  - 3.17 Taxation ..... 15
- 4. Notice to investors and information on document ..... 18
  - 4.1 Notice to investors ..... 18
  - 4.2 Documents incorporated by reference and on display ..... 19
  - 4.3 Manager and legal matters ..... 19
  - 4.4 References and glossary of terms and abbreviations ..... 19
  - 4.5 Persons responsible ..... 21



# 1. RISK FACTORS

## 1.1 General risks relating to investment in shares

Investing in shares is subject to numerous risks. Prior to making any investment decision regarding Shares in the Issuer, investors should consider all the information provided in this Share Securities Note and the Share Registration Document dated 17 December 2010 of the Prospectus of which this Share Securities Note forms part, and in particular to consider the risks and uncertainties described below in this Share Securities Note and the chapter on risk factors in the Share Registration Document dated 17 December 2010. The risks and uncertainties described in these two documents are those that the Issuer's management and board of directors believe are most likely to materially affect the Issuer and any investment made in its Shares. If any of these events occur, the trading price of the Shares could decrease and investors might lose part, or even all, of their investment. Additional risks and uncertainties that do not currently exist, that are not presently considered material, or of which the Issuer is unaware may also impair the business and operation of the Issuer. These risks and uncertainties could have a materially adverse impact on the business, income, profits, assets, liquidity and Share price of the Issuer. The Issuer believes that this chapter under the heading "*1. Risk factors*" in this Share Securities Note includes a prominent disclosure of risk factors that are material to the securities being admitted to trading in order to assess the market risk associated with these securities.

## 1.2 Risk related to investment in the Issuer's Shares

### 1.2.1 Risks inherent in equity investments

Equity investments involve a variety of risks. Examples of such risk factors that may have a material effect on the price of the Issuer's Shares, and thereby on the investment value, are market risk, liquidity risk, counterparty risk and changes in the regulatory framework for financial and equity markets.

Investors should note that there is risk both in terms of market risk in general and business risk which might have a negative effect on their Share price. There are various risk factors influencing the equity market including changes in general interest rates, foreign exchange rates, political risk, legal risk and economic prospects. Furthermore, the Share price can fluctuate considerably due to factors related to the business of the Company such as variations in operating income or cost, changes in the market environment, adverse coverage of the Issuer and its operations and services in the media and changes to the Issuer's competitive position.

Moreover, according to the Act on Bankruptcy, etc., no. 21/1991, shares are a subordinated claim on the assets of companies. This means that in the event of the Issuer's liquidation, the Shareholders will receive what is left of assets after all other claims have been paid.

In many countries, shares have yielded a better return than bonds measured over long periods of time. Nevertheless, long periods can also be found where the return on shares has been worse than on bonds and even negative. Those who intend to invest in the Issuer should know that there is no guarantee of a return on their investment in the future and investors should bear in mind that even though stocks can provide a good return in general, there is always a risk that an investment in the shares of individual companies will decline in value. By diversifying their equity assets through purchases in a number of companies of various types, investors can reduce the risk involved in investment in individual companies and it is recommended that investors seek investment advice.

### 1.2.2 Securities regulation

The Issuer is subject to the provisions of Icelandic regulations on securities, contained i.a. in the Act on Securities Transactions no. 108/2007, Commission Regulation (EC) no. 809/2004 on the implementation of Directive 2003/71/EC<sup>1</sup> and ministerial regulations and rules, or guidelines from the FME. The Issuer is also subject to the provisions of rules adopted by NASDAQ OMX Iceland since the Issuer's Shares are traded on NASDAQ OMX Iceland Main Market. The Issuer endeavours to comply with the said

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<sup>1</sup> The Commission Regulation has been adopted into relevant law by Icelandic Regulation no. 243/2006.

provisions, and any violation of these provisions may have a financial impact on the Issuer. Serious breaches may result in NASDAQ OMX Iceland removing the Issuer's securities from trading on NASDAQ OMX Iceland Main Market. Should the Issuer violate the respective rules, it may furthermore have an impact on the Issuer's reputation and consequently result in the price of the Shares dropping.

Parties investing in the Issuer's Shares are thereby subject to laws and regulations relating to securities transactions, such as rules relating to takeover bids, public disclosure of ownership stakes, public disclosure of material change in voting rights etc.

### **1.2.3 Volatility of the market price of the Issuer's Shares**

The Issuer's Share price may be volatile in the future. Factors that could affect the market price of the Issuer's Shares include changes in the Issuer's results of operations, changes in general economic conditions, particularly in Iceland, stock market analyst recommendations regarding the Issuer or the IT industry in general and volatility in the financial markets. In particular, the equity markets have experienced extreme volatility that has at times been unrelated to the operating performance of particular companies. Volatility in the equity markets may have a material adverse effect on the price of the Issuer's Shares.

The possibility exists that investors will not be able to easily sell their Shares or only at a discount to comparable securities from other issuers. In order for investors to be able to sell their Shares, there needs to be active trading with the Shares in the secondary market.

### **1.2.4 Shareholder structure and dilution from Share capital increase**

If new Shares in the Issuer are issued, the proportional Shareholding of those who already hold Shares in the Issuer will be reduced accordingly, unless they themselves acquire the new Shares pro rata to their existing holdings. The purpose of increasing capital is typically to finance projects with the long-term intention of making the Issuer's Shares more valuable in the future. Shareholders may therefore be faced with increased risk for their investment alongside the dilution of their Shares. It is possible that the Issuer will consider increasing its Share capital further in the future, e.g. in order to finance its continuing growth.

The ownership structure can be a risk factor for investors. Investors should be aware of the fact that ownership of the Issuer can change rapidly and without any prior warning.

As a result of the equity increase made public 29 September 2010, amounting to 120,000,000 Shares which equals 42.9% of previously issued Shares and is part of the refinancing of the Company, the proportional ownership of Shareholders has changed. Investors are advised to study the information on dilution under the heading "*3.13 Dilution*" in this Share Securities Note.

The Issuer has no knowledge of any agreements between Shareholders on the treatment of voting rights or knowledge of any arrangements which may at a subsequent date result in a change of control of the Issuer. Investors are advised to study the information on the largest Shareholders under the heading "*7.2 Principal Shareholders*" in the Share Registration Document, dated 17 December 2010.

### **1.2.5 Changes in law**

The terms and conditions of the Share capital are based on Icelandic law in force as of the date of this Share Securities Note. No assurance can be given as to the impact of any possible judicial decision or change to Icelandic law or administrative practice after the date of this Share Securities Note.

## **2. KEY INFORMATION**

### **2.1 Working capital, capitalisation and indebtedness**

#### **2.1.1 Working capital statement**

The chairman of the board of directors and the CEO, on behalf of the Issuer, declare that in their opinion the Issuer's working capital is sufficient for the Issuer's present requirements.

#### **2.1.2 Capitalisation and indebtedness**

The following tables set forth the consolidated capitalisation and indebtedness as at 30 September 2010. Figures marked as reviewed are according to the Company's reviewed financial statements for the first nine months 2010 and as at 30 September 2010. Figures marked as adjusted are adjusted for the restructuring of the Company's debt made public 29 September 2010 which is in line with reviewed pro forma financial position published in the Company's Share Registration Document dated 17 December 2010.

The reviewed nine month financial statements 30 September 2010 include the issue of 120,000,000 new Shares at the price of ISK 7.0 per Share for a total price of ISK 840 million. Thereof unpaid Share capital in the amount of ISK 644 million is capitalised in the statement of financial position as at 30 September 2010 and the settlement of this Share capital is adjusted for in the tables below. The estimated cost of the issue is ISK 16 million (ISK 13 million net of tax). The estimated net proceeds amount to ISK 824 million. The Share issue is a part of the refinancing of the Company's debt made public 29 September 2010.

The adjustments include the decrease in the Company's interest bearing debt by a total of ISK 2,245 million as a result of the financial restructuring the Company's debt has undergone. That includes a sale of the Company's real estate at Borgartún 37 to Íslandsbanki hf. at a price of ISK 1,650 million. At the same time the Company has signed a 15-year lease agreement on Borgartún 37. The Company reached agreements with Arion Bank hf. and Íslandsbanki hf. on the restructuring of the Company's long-term debt, where the effective debt repayment schedule will be seven to fifteen years, a part of the loans are converted from foreign currency to ISK and their principal decreases. Consequently the Company's interest-bearing debt decreases and amounts to ISK 2,855 million after the financial restructuring pro forma 30 September 2010.

There have not been other material changes in Nýherji's consolidated capitalisation and indebtedness since 30 September 2010.

The Issuer has guaranteed loans totaling ISK 65 million owed by two of its managing directors.

In the capitalisation table, which is the first table below, all liabilities (recourse and non-recourse) are unguaranteed. There is no indirect or contingent indebtedness to disclose in the indebtedness table, which is the second table below. All figures in the tables are in millions of ISK.

<b>Capitalisation</b> <i>(ISK m)</i>	<b>30.9.10</b> <i>Reviewed</i>	<b>Adjustments</b>	<b>30.9.10</b> <i>Adjusted</i>
Guaranteed current debt	-	-	-
Secured current debt <sup>1</sup>	2,538	(1,780)	758
Unguaranteed / Unsecured current debt	2,645	(164)	2,481
<b>Total current debt</b>	<b>5,183</b>	<b>(1,944)</b>	<b>3,239</b>
Guaranteed non-current debt	-	-	-
Secured non-current debt <sup>1</sup>	2,562	(465)	2,097
Unguaranteed / Unsecured non-current debt	2	-	2
<b>Total non-current debt<sup>2</sup></b>	<b>2,564</b>	<b>(465)</b>	<b>2,099</b>
Share capital	395	-	395
Share premium	1,791	-	1,791
Reserves	1,056	(646)	410
(Accumulated deficit) retained earnings	(1,032)	796	(236)
Non-controlling interest	14	-	14
<b>Total equity</b>	<b>2,223</b>	<b>150</b>	<b>2,373</b>
<b>Total capitalisation</b>	<b>9,970</b>	<b>(2,259)</b>	<b>7,711</b>

(1) Assets secured are real estate, receivables, inventories and shares in subsidiaries

(2) Excluding current portion of long-term debt

<b>Indebtedness</b> <i>(ISK m)</i>	<b>30.9.10</b> <i>Reviewed</i>	<b>Adjustments</b>	<b>30.9.10</b> <i>Adjusted</i>
Cash	112	-	112
Cash equivalents	-	-	-
Trading securities	-	-	-
<b>Liquidity</b>	<b>112</b>	<b>-</b>	<b>112</b>
<b>Current financial receivable<sup>1</sup></b>	<b>3,286</b>	<b>(644)</b>	<b>2,642</b>
Current bank debt	800	(450)	350
Current portion of non-current debt	1,738	(1,330)	408
Other current financial debt	2,645	(164)	2,481
<b>Current financial debt</b>	<b>5,183</b>	<b>(1,944)</b>	<b>3,239</b>
<b>Net current financial indebtedness</b>	<b>1,786</b>	<b>(1,300)</b>	<b>486</b>
Non-current bank loans	2,562	(465)	2,097
Bonds issued	-	-	-
Other non-current loans	2	-	2
<b>Non-current financial indebtedness</b>	<b>2,564</b>	<b>(465)</b>	<b>2,099</b>
<b>Net financial indebtedness</b>	<b>4,350</b>	<b>(1,765)</b>	<b>2,585</b>

(1) Current financial receivable includes the unpaid share capital, which is deducted in the adjustments

## **2.2 Declaration of interest**

The investor's attention is drawn to the interests of the Manager and the Issuer under the heading "*4.3 Manager and legal matters*".

## **2.3 Issue of the New Shares, background and net proceeds**

The Issuer's board of directors decided on 30 August 2010, subject to a number of conditions, to increase the Issuer's Shares by 120,000,000 in accordance with its authorisation in Article 2.1 of the Issuer's Articles of Association as of 19 February 2010. The Share increase is a part of the refinancing of the Company's debt described above. The Company concluded agreements with its creditors on the restructuring of the Company's long-term liabilities at the end of September 2010 and reached agreements with investors on a Share increase. Each part of this refinancing, including both the payment of increased Share capital and the settlement of agreements to the banks, was subject to each other.

The 120,000,000 Shares were subscribed for by nine Investors in September 2010 at the price rate ISK 7.00 per Share or for a total price of ISK 840,000,000. The estimated cost of the issue is ISK 16 million (or net of tax ISK 13 million) and the estimated net proceeds amount to ISK 824 million. The 23% of the total purchase price was paid in September and the remaining 77% is to be paid in December, as soon as this Prospectus has been published. The New Shares shall be paid for into a specified bank account of the Issuer at Arion Bank, as further described in the payment instructions sent to each Investor. The New Shares will be delivered through Arion Bank to each Investor as soon as they have been admitted to trading, given that the Investor has paid in full for his New Shares in a correct manner.

The Share increase was made public on 29 September 2010, which was as soon as possible due to the conditions which the increase was subject to. The first 27,999,999 Shares of the increase were issued on 30 September 2010, which increased the total issued Shares to the current status of 307,999,999 Shares as at the date of this Share Securities Note, and were admitted to trading on 8 October 2010. The board of directors intends to issue the remaining 92,000,001 New Shares of the increase on 20 December 2010, which will further raise the number of total issued Shares from 307,999,999 Shares to 400,000,000. These 92,000,001 New Shares are expected to be admitted to trading on 22 December 2010, but the date will be made public at least one day in advance by NASDAQ OMX Iceland.

These New Shares are granted rights within the Issuer as of the date of registration of the increase of Share capital which is expected to be the same as issue date. As Shareholders in the Company waived their pre-emptive rights in respect of any of these 120,000,000 Shares, the proportional holding of other Shareholders is diluted by 30.0% (calculated as a percentage of the total issued shares past the issue of the New Shares) by the issue of these 120,000,000 Shares.

## 2.4 Investors

The table below shows the Investors who subscribed for 120,000,000 new Shares in September 2010 as made public 29 September 2010 along with 1,250,001 of the Issuer's own Shares.

<b>Placement of Shares September - December 2010</b>				<i>Proportional holding (voting %) before and after 120m Shares issue</i>	
<i>Investor</i>		<i>% of placement</i>	<i>Shares</i>	<i>Before</i>	<i>After</i>
Stafir lífeyrissjóður	Pension fund	23.6	28,571,429	3.8	9.8
Lífeyrissjóður verslunarmanna	Pension fund	23.6	28,571,429	3.3	9.5
Vátryggingafélag Íslands hf.	Institutional investor	21.6	26,250,001	0.0	6.6
Söfnunarsjóður lífeyrisréttinda	Pension fund	9.1	11,000,000	0.0	2.8
Sameinaði lífeyrissjóðurinn	Pension fund	8.8	10,714,285	0.0	2.7
Landssjóður hf., úrvalsbréf	Mutual fund	5.9	7,142,857	0.1	1.9
Stefnir - Ís-15	Mutual fund	2.9	3,500,000	0.1	1.0
Árni Vilhjálmsson	Deputy chairman of the Issuer's board	2.5	3,000,000	0.1	0.9
Útboð og samningar ehf.	Holding company	2.1	2,500,000	0.0	0.6
<b>Total</b>		<b>100</b>	<b>121,250,001</b>	<b>7.4</b>	<b>35.7</b>
<i>Source</i>			<i>Shares</i>		
Own Shares delivered 7 October 2010			1,250,001		
Shares issued 30 September 2010			27,999,999		
New Shares intended to be issued December 2010			92,000,001		
<b>Total</b>			<b>121,250,001</b>		

## 2.5 Use of proceeds

The Issuer uses the ISK 824 million net proceeds from the 120,000,000 Shares mainly to reduce long-term borrowings in accordance with the agreements with the banks published 29 September 2010.

### 3. INFORMATION CONCERNING THE SHARES

#### 3.1 Share capital and authorisation for Share increase and purchase of own Shares

The total issued Shares in Nýherji hf. amounts to 307,999,999 Shares as at the date of this Share Securities Note, all fully paid. Of this the Issuer holds 3,849,224 own Shares.<sup>2</sup> Own Shares are all held by the parent company. By law the Company's own Shares do not carry voting rights and are therefore not active. Shares issued by the Company are all of same class and not issued in different classes. All active Shares have the same rights, including voting rights. On 16 December 2010 there were 277 shareholders in Nýherji hf.

The Issuer's board of directors decided on 30 August 2010, subject to several conditions, to increase the Issuer's Shares by 120,000,000 in accordance with its authorisation in Article 2.1 of the Issuer's Articles of Association as of 19 February 2010. These 120,000,000 Shares were subscribed for by nine Investors in September 2010 at the price rate ISK 7.00 per share or for a total price of ISK 840,000,000. The 23% of the total purchase price was paid in September and the remaining 77% is to be paid in December, once this Prospectus has been published. The Share increase was made public on 29 September 2010, which was as soon as possible due to the conditions which the increase was subject to. The first 27,999,999 Shares of the increase were issued on 30 September 2010, which increased the total issued Shares to the current status of 307,999,999 Shares, and were admitted to trading on 8 October 2010. The board of directors intends to issue the remaining 92,000,001 New Shares of the increase on 20 December 2010, which will raise the number of total issued Shares further from 307,999,999 Shares to 400,000,000. These 92,000,001 New Shares are expected to be admitted to trading on 22 December 2010, but the date will be made public at least one day in advance by NASDAQ OMX Iceland. The New Shares are granted rights within the Issuer as of the date of registration of the increase of Share capital which is expected to be the same as issue date.

As Shareholders in the Company waived their pre-emptive rights in respect of any of these 120,000,000 Shares, the proportional holdings of other shareholders is diluted by the issue of these Shares.

Shareholders have not decided or authorised any further increase of Shares in the Company than described above.

Shareholders' meetings may decide on an increase in the Share capital of the Company, whether through subscription for new Shares or through the issue of bonus Shares, based on the rules that apply to the amendment of the Issuer's Articles of Association. Shareholders have pre-emptive rights to increased Share capital in proportion to their holdings in the Company. If a Shareholder does not exercise all of his right to subscribe, other Shareholders are entitled to an increased right to subscription. The Shareholders' pre-emption rights may be waived by the Shareholders by a resolution passed with the approval both of 2/3 of the votes cast and Shareholders controlling at least 2/3 of the Shares in the Company represented at the meeting, cf. Article 34 of the Act respecting Public Limited Companies, no. 2/1995.

According to the Issuer's Annual General Meeting on 19 February 2010, the board of directors may purchase up to 10% of the Company's own shares. The Shares' purchase price may deviate by up to +/- 20% from the market price of the Shares registered on the NASDAQ OMX Iceland. No limit is set on this authorisation regarding the size of the number of Shares purchased each time. The board of directors' authorisation to purchase own Shares can only be valid for 18 months at a time and this authorisation is valid for 18 months counting from 19 February 2010.

According to Article 104 of the Act respecting Public Limited Companies, no. 2/1995, the Company is not permitted to grant credit, pledge or guarantee against Share purchase in the Company, except in the case of employees or related companies purchasing Shares.

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<sup>2</sup> 3,849,224 Shares are registered under the name of Issuer, but thereof 50,000 Shares fully paid by investors who have not made necessary arrangements to receive the Shares

### **3.2 Trading and admission to trading**

Shares in Nýherji hf. are traded on the Main Market of NASDAQ OMX Iceland under the ticker symbol “NYHR”. The Issuer’s board of directors has not adopted any resolution on seeking an admission to trading for the Company’s Shares on any other regulated markets than NASDAQ OMX Iceland. The Issuer’s board of directors has requested that NASDAQ OMX Iceland admit the New Shares to trading on 22 December 2010. The date when the New Shares will be admitted to trading, which may occur later, will be made public at least one day in advance by NASDAQ OMX Iceland.

### **3.3 Issue and Share characteristics**

All issued Shares in Nýherji hf. are created under the Act respecting Public Limited Companies, no. 2/1995, see in particular section V under the heading “*Increase of Share Capital and Subscription Rights*” of the Act.

The New Shares are expected to be issued on 20 December 2010 and are to be granted rights within the Issuer as of the same date, when the registration of the increase of Share capital is also expected to take place. There are no restrictions on trading with the New Shares. The New Shares will belong to the same class and carry the same rights as other Shares in the Issuer.

All the Shares of the Issuer are of the same class and carry equal rights. The Issuer’s Shares carry no special rights and no restrictions are placed on them. The Issuer’s Shares enjoy all rights provided for according to the Act respecting Public Limited Companies, no. 2/1995, including but not limited to: the right to vote at Shareholders’ meetings, the right to receive dividend when declared, the right to exercise pre-emptive rights to new Shares, unless waived, and the right to a portion of the Issuer’s assets upon liquidation, all proportionately according to Share ownership, statutes and the Issuer’s Articles of Association in effect at any given time. Shareholders do not have other rights to a share in the Issuer’s profit. Shareholders are not obliged to redeem their Shares unless otherwise provided by law.

The Issuer’s Shares are all issued electronically at the Icelandic Securities Depository (Verðbréfaskráning Íslands; ISD), Laugavegur 182, 105 Reykjavík, Iceland. The Shares are registered at the ISD under the name of the relevant Shareholder or his/her nominee. “NYHR” is the symbol for the Issuer’s Shares in the ISD clearing and settlement system. The ISIN code of the Shares is IS0000000396. The currency of the securities issue is ISK.

### **3.4 Right of ownership and transfer**

There are no restrictions on the disposal of Shares in the Company. Shares in the Company may be sold and pledged to the extent permitted by law. Those who have acquired Shares in the Company cannot exercise their rights as Shareholders until their names have been registered in the Issuer’s Register of Shares, or until they have given due notice and submitted proof of their ownership of the Share. At the time of the publication of this document, no provision limiting the transfer of the Shares exists under Icelandic law, and there are no provisions that would have the effect of delaying, deferring or preventing a change in control of the Company.

On 28 November 2008, the Central Bank of Iceland issued Rules on Foreign Exchange, which shall be revised every six months, latest version no. 1082/2010 dated 28 November 2010. At the same time, the Central Bank revoked guidelines adopted early October 2008 on temporary modifications in currency outflow, in the wake of the failure of three commercial banks and the ensuing market disturbances. The aim of the Rules is to maintain restrictions on capital outflows that could have a negative impact on the reconstruction of the foreign exchange market. The Rules stipulate that those who acquire foreign currency must submit it to a domestic financial institution. Restrictions are placed on movement of capital by parties intending to exchange Icelandic krónur for foreign currency. The Rules prohibit trading between domestic and foreign parties in domestic securities and other ISK-denominated financial instruments. Foreign parties are prohibited from purchasing ISK-denominated securities through the intermediation of domestic parties, unless they already own ISK-denominated assets that can be used for this purpose.<sup>3</sup>

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<sup>3</sup> <http://sedlabanki.is/?PageID=1019> and <http://sedlabanki.is/?PageID=287&NewsID=1980>

Once a Shareholder has paid for his Share in full to the Company, he shall be issued an electronic certificate in a securities depository and a registered title which confers on him the full rights provided for in the Articles of Association of the Company. Transfer of Shares becomes effective at registration with ISD. The electronic registration of securities is governed by Act on Electronic Registration of Title to Securities, no. 131/1997, and Regulation no. 397/2000 on Electronic Registration of Securities in a Central Securities Depository which is based on that Act. It is forbidden to issue share certificates for registered rights according to an electronic share or endorse them, and such transactions are void.

A printout from the ISD on the ownership of Shares in Nýherji hf. is considered a valid registration of the Shares. For the Company, the Share register shall be regarded as full proof of ownership rights to any Shares in the Company, and dividends at any time, as well as bonus Shares. Notices of meetings and other notices shall be sent to the party registered as the owner of the Shares in question in the Share register of the Company. The Company assumes no responsibility for payments or notices being lost owing to the neglect to notify the Company of changes of ownership or address.

Rights to electronic shares must be registered at ISD if they are to enjoy legal protection against legal enforcement and disposal by means of an agreement. Only account operators which have concluded a valid agreement of association with ISD are authorised to act as intermediaries in registration of title in ISD. A Shareholder must therefore select an associated account operator which shall serve as intermediary in electronic registration of title of securities in his/her name. Registration of the ownership of an electronic share at ISD, subsequent to a securities depository final entry, formally gives a registered owner legal authorisation to the rights for which he is registered. The priority of incompatible rights is determined by the chronological order of requests from an associated account operator reaching ISD.

### **3.5 Nominee accounts**

Provisions on nominee accounts are contained in the Act on Securities Transaction, no. 108/2007, the Act no. 131/1997 on Electronic Registration of Title to Securities and the Act respecting Public Limited Companies, no. 2/1995.

In Article 31 of the Act respecting Public Limited Companies, no. 2/1995 it is stated that those who own shares cannot exercise their rights unless the ownership has been registered in the share register or until they have given due notice and submitted proof of their ownership of the share. This does not include the right to dividends or other payments and the right to new shares in the case of a new share issue. According to the above a Shareholder does not have voting rights at a Shareholders' meeting unless his/her name is registered in the Share register or he/she has given due notice and submitted proof of his/her ownership of the Share. The same applies to financial institutions which are registered as nominees as the Shareholder does not have the right to issue a proxy to exercise the voting right. Shares held by a nominee do therefore not provide voting rights at Shareholders' meetings.

Having Shares registered by a nominee does not exempt the respective Shareholder from being subject to the relevant rules relating to the acquisition and disposal of major holdings in the Act on Securities Transactions, no. 108/2007. Customers' ownership in nominee accounts shall be included when assessing the need for disclosing such transactions.

In Article 12, paragraph 1, of the Act on Securities Transactions, no. 108/2007 it is stated that a financial undertaking, which is authorised to hold financial instruments owned by its customers, may seek authorisation from the FME to hold them in a special account (nominee account) and accept payment on behalf of its customers from individual issuers of financial instruments, provided the financial undertaking has explained to the customer the legal effects of such and the customer has given approval thereto. The financial undertaking must keep a record of the holdings of each individual customer. Article 12, paragraph 2, states that in the event that a financial undertaking is sent into receivership or granted a debt moratorium, or the undertaking is wound up or comparable measures taken, the customer can, on the basis of the record provided for in the first paragraph, withdraw his/her financial instruments from the nominee account, provided there is no dispute as to the holding.

### **3.6 General meetings and voting rights**

At Shareholders' meetings each Share carries one vote. It is not permitted to exercise voting rights for the Company's own Shares.

A Shareholders meeting shall be called with at least three weeks' notice (requirement for listed companies according to Act respecting Public Limited Companies, no. 2/1995) and with maximum four weeks' notice (according to the same Act). Shareholders shall be notified of a shareholders meeting with an advertisement published in widespread newspapers or by other provable means and the notification shall be made publicly available in the European Economic Area. The AGM shall be held before end of June each year, which is within six months from the end of each fiscal year.

The Agenda of the Annual General Meeting includes:

1. A report by the board of directors on the Company's businesses in the past operating year.
2. The financial statements for the past fiscal year, along with the auditor's remarks shall be submitted for ratification.
3. Decision on the appropriation of the profit or the loss of the Company from the past fiscal year.
4. Decision on the remuneration to the members and alternate members of the board of directors.
5. Proposals on changes to the Company's Articles of Association as duly placed.
6. Election of the board of directors in accordance with Article 5.1. of the Issuer's Articles of Association
7. The election of a statutory auditor or an audit firm in accordance with Article 7.2. of the Issuer's Articles of Association
8. Such other matters as duly placed.

The notice of the meeting shall state the business of the meeting. Proposals requested by the Shareholders to be taken for consideration at a Shareholders' meeting have to be delivered to the Company's board of directors at the latest 7 days before the meeting. For a proposal regarding amendments of the Articles of Association of the Company to be taken under consideration, the main subject of the motion shall be specific in a notice to a meeting.

The Shareholders' meeting is valid if it has been legitimately called. A Shareholders' meeting shall elect a chairman and a secretary. A record of minutes shall be kept and proceedings of the meeting entered into it.

The right to attend Shareholders' meeting have Shareholders, their representatives and advisors of the Shareholders. A Shareholder may have his representative attend a Shareholders' meeting on his behalf. A representative shall then submit a dated power of attorney in writing of which the date shall be maximum one year prior to the meeting. Such power of attorney can be validly revoked at any time.

As a listed company, the Issuer is in duty bound to afford Shareholders an opportunity of casting votes on a Shareholders' meeting by letter or electronically, without being present.

The Issuer's Articles of Association may be amended at a lawfully convened Shareholders' meeting of the Company. A decision to amend the Articles of Association is only valid if approved with the support of 2/3 of the votes represented at the meeting. If the Shareholders' meeting is not attended by Shareholders controlling sufficient Shareholding to make the meeting legitimate, a new Shareholders' meeting shall be called. Nevertheless the voting rights and equality of Shareholders will not be amended except with the consent of 9/10 of all votes, in accordance with Article 94 of the Act respecting Public Limited Companies, no. 2/1995.

### **3.7 Rights to share in the Issuer's profits**

Shareholders in the Issuer have no rights to the Company's profits except through dividends payments.

The distribution of dividend is decided by a Shareholders' meeting. The amount of dividends declared is subject to applicable restrictions on the payment of dividends under Icelandic law and other factors as the Board of Directors may deem relevant.

According to Article 2.2 i.f. of the Issuer's Articles of Association, a lawful proof of ownership of Shares in the Company shall be the Company's registry of Shares held in accordance with provisions of the Act on Electronic Registration of Title to Securities, no. 131/1997. Dividends as well as all notices shall be sent to such parties as are registered as Shareholders in the company registry of Shares at each point in time. The Company is not liable if payments or notices are miscarried because of the Shareholders negligence to inform the Company of its change of address. The Shareholders may collect their dividends at the Issuer's office within four years of payment being due. The right to a dividend lapses after these four years according to Act on the Limited Periods for Claims, no. 150/2007.

The board of directors of Nýherji has followed the policy of paying one-third of profits to the Issuer's Shareholders in the form of a dividend. At the 19 February 2010 AGM, it was agreed not to pay dividend for the year 2009. At the 6 February 2009 AGM, it was agreed, in consultation with creditors, to pay no dividend for the year 2008. At the 25 January 2008 AGM, a motion was approved to pay ISK 0.6 per Share as dividend to Shareholders for the 2007 operating year, following which just over ISK 135 million were paid to Shareholders on 29 February 2008.

### **3.8 Shareholders' agreements**

The Issuer is neither aware of any agreement among its Shareholders regarding the exercise of voting rights, nor that Shareholders have obliged themselves not to sell their Shares for a specific period.

### **3.9 Mandatory takeover bid rules**

In chapter X of the Act on Securities Transactions, no. 108/2007 it is stated that if a party has directly or indirectly acquired control in a company which shares are admitted to trading on a regulated market, it shall make other shareholders a takeover bid. A party is considered having control if it alone or in collaboration with others has (1) reached at least 30% of the total voting powers through ownership; (2) reached at least 30% of the total voting powers through agreements with other shareholders; or (3) gained power to appoint or dismiss the majority of the board of directors in the company. The takeover bid to other shareholders is to be made no later than four weeks from the time when control was acquired. The offering party shall offer all the shareholders in the same class the same terms. The price offered shall be at least the highest price which the offering party or related parties in collaboration with the party have paid for shares in the company in the last 6 months prior to the offer. The price offered shall, however, at least be equal to the last price the day before the offering party acquired control or at the date of the announcement made public.

### **3.10 Squeeze-out and sell-out rules**

In chapter X of the Act on Securities Transactions, 108/2007 it is stated that if the offering party has acquired more than 9/10 of the share capital of the company following a takeover bid then the offering party and the board of the company can jointly agree to unilaterally squeeze out the remaining shareholders. The price is the same as in the takeover bid if the squeeze-out is initiated within three months from the end of the offer period. Furthermore if the offering party has acquired more than 9/10 of the share capital of the company then the remaining shareholders can unilaterally sell out their remaining shares to the offering party for the same price as in the takeover bid, if the remaining shareholder(s) have made a request for such redemption of shares within three months from the end of the offer period.

### **3.11 Dissolution of the Company**

According to Article 10.1 of the Issuer's Articles of Association, a dissolution of the Company or a merger with another company shall be governed by the current Act respecting Public Limited Companies, no. 2/1995 as the provisions are set out in chapters XIII and XIV of that Act.

If it is considered necessary or appropriate to wind up the Company, proposals to that effect shall be treated in the same manner as amendments to the Articles of Association, with the variation that a decision of at least 2/3 of the total Share capital of the Company is needed for dissolution. The same

applies if the Company is to be divided or merges or joins into other companies in any way and a sale of all of the Company's assets. A Shareholders' meeting which makes a lawful decision on the division or dissolution of the Company shall also decide on how the assets of the Company shall be disbursed and debts paid. The meeting shall also decide whether the Company is to be divided by a public authority or whether a Winding-up Committee is to be elected. If a Shareholders' meeting has decided on the dissolution of the Company, it shall without delay be announced to the Register of Limited Companies.

According to the Act on Bankruptcy, etc., no. 21/1991, shares are a subordinated claim on the assets of companies. This means that in the event of the Issuer's liquidation, the Shareholders will receive what is left of assets after all other claims have been paid.

### **3.12 Reports to Shareholders**

Shareholders are entitled to attend and free to speak at the Company's AGM and at extraordinary meetings. At the AGM the board of directors reports to the Shareholders on the activities of the Company during the previous year of operation. Furthermore, the Consolidated Financial Statements for the preceding year's activities are submitted for approval, together with the auditor's report.

According to Article 85 of the Act respecting Public Limited Companies, no. 2/1995, Shareholders controlling more than 10% of the total Share capital of the Company can submit a request for an extraordinary Shareholders' meeting. In that case, the board of directors must call the extraordinary meeting within 14 days.

### **3.13 Dilution**

If the Issuer increases its Share capital by issuing new Shares, the proportional Shareholding of existing Shareholders will be reduced accordingly, unless they themselves acquire the new Shares pro rata to their existing holdings. The Issuer's purpose in increasing capital is generally to finance projects with the long-term intention of making the Issuer more valuable in the future. Shareholders may therefore be faced with increased risk for their investment alongside the dilution of their Shares.

The 120,000,000 Shares decided to issue in connection with the refinancing of the Company's debt are equal to a Share increase of 42.9%, calculated as a percentage of the 280,000,000 total issued Shares prior to the issue of 27,999,999 Shares on 30 September 2010 and the intended issue of 92,000,001 New Shares. The 92,000,001 New Shares are equal to a share increase of 29.9%, calculated as a percentage of the current 307,999,999 total issued Shares as at the date of this Share Securities Note.

As existing Shareholders in the Issuer waived their pre-emptive rights in respect of any of the 120,000,000 Shares described above, the proportional holdings of Shareholders are diluted by 30.0% by the issue of these Shares, when calculated as a percentage of the intended total issued Shares past the issue and delivery of these 120,000,000 Shares. The dilution is 23.0% by the intended issue of 92,000,001 New Shares, when calculated as a percentage of the intended total issued Shares past the issue and delivery of these New Shares.

### **3.14 Disclosure requirements**

As the Issuer's Shares are admitted to trading on the Main Market of NASDAQ OMX Iceland, any information that the Issuer feels could have a significant impact on the market price of its securities is to be published in accordance with governing rules, regulations and legislation effective at the time. Publication of information is subject to provisions of the Act on Securities Transactions, no. 108/2007, and a Regulation no. 707/2008, on Provision of Information and Notification Requirements in accordance with Act no. 108/2007. The current Rules for Issuers of Financial Instruments listed on the NASDAQ OMX Iceland effective as of 1 December 2009 stipulate that all material documentation regarding the Issuer shall be made publicly available in the European Economic Area and sent to NASDAQ OMX Iceland for supervision purposes.

Act on Securities Transactions, no. 108/2007 stipulates for example rules that apply to changes in the ownership of substantial holdings in a company which has had one or more classes of its shares admitted to trading on a regulated securities market. According to the Act, a substantial holding is 5% of voting rights or the nominal value of share capital, and multiples thereof of up to 40%, as well as 50%, 66<sup>2</sup>/<sub>3</sub>% and 90%. When a party acquires a substantial holding, or increases a holding to exceed these limits, or reduces a holding to fall below these limits, the party must immediately give notice to the FME and to the Company as soon as possible, no later than on the trading day immediately following the date on which the notification requirement arose. The issuer shall, as soon as practicable after receipt of the notification and no later than at 12:00 hours on the trading day immediately following its receipt of the notification, make public all the information contained in the notification.

### **3.15 Market making**

No market makers are acting for the Issuers' Shares on the NASDAQ OMX Iceland.

### **3.16 Major holdings**

As the Issuer's Shares are traded on the Main Market of NASDAQ OMX Iceland, Shareholders in the Company are subject to the disclosure requirements set out in the Act on Securities Transactions, no. 108/2007 and in government regulations. Act on Securities Transactions, no. 108/2007 contains, for example, rules that apply to changes in the direct or indirect ownership of major holdings in a company which has had one or more classes of its Shares traded on a regulated securities market. According to the Act, a substantial holding is 5% of voting rights, and multiples thereof of up to 40%, as well as 50%, 66<sup>2</sup>/<sub>3</sub>% and 90%. When a party makes an acquisition or disposes of voting rights (or the issuer increases or reduces its Share capital or the number of voting rights or a change occurs in the proportion of voting rights), which results in the party's voting rights exceeding or falling below these limits, the party must immediately give notice to the FME and the issuer, which shall make the notice public no later than 12:00 GMT on the next business day after receiving the notice.

### **3.17 Taxation**

The Shares of the Issuer are subject to taxation according to the law in effect at any given time. The following is a general summary of certain tax consequences for Shareholders, according to the Income Tax Act, no. 90/2003. The tax treatment for Shareholders depends in part on their particular circumstances and can differ depending on their residence. Each Shareholder should consult a tax advisor regarding the tax consequences which may arise for such person as a result of buying or selling the Shares, including the applicability and effect of foreign income tax regulations and provisions contained in treaties entered into by Iceland to avoid double taxation. The summary does not cover tax issues where the Shares are held, e.g. as portfolio investments or by a partnership.

A bill has been proposed, amending some provisions of the Icelandic Income Tax Act as of 1 January 2011 in most cases. Among the changes proposed are increased tax rates on capital income generated by individuals from 18% to 20% and the corporate income tax rate from 18% to 20%. The amendments would affect taxation of income arising from dividends and sale of shares in addition to taxation of corporate profit. The bill has not been put before the legislative body, and may therefore be subject to further changes or rejection.

#### **3.17.1 Tax considerations for residents of Iceland**

##### **3.17.1.1 Dividends**

The Issuer is obligated to withhold taxes on dividends payments, according to Art. 3, paragraph 2, and Art. 5, paragraph 4, of Act on Withholding of Tax on Financial Income, no. 94/1996. The withholding is applied at the same rate as the applicable tax rate for the receiver of the dividends. If the withholding tax is higher than levied tax, the difference will be refunded upon assessment of tax returns.

## **Individuals**

Dividends received by individuals are taxable as income from capital and at rate of 18%. No deductions are allowed.

## **Limited liability companies**

Dividends paid to limited liability companies constitute taxable income at the standard 18% corporate income tax rate. An amount equal to the dividends received may be deducted from the income tax base. Such deduction is only applicable if carry forward losses and the current fiscal year's loss have been utilised. From 1 January 2011, the deduction will also be dependent on a company owning at least 10% share in the company distributing the dividends ("dividend received deduction").

### **3.17.1.2 Sale of Shares**

#### **Individuals**

Profit from the sale of Shares is income from capital and at the tax rate of 18%. Capital gains is calculated as the difference between the sales price and purchase price of the Shares. The Shareholder's purchase price for all Shares of the same class and type will be determined as the purchase price when calculating the capital gains. Individuals can use losses from the sale of Shares within the same calendar year and offset them against capital gains from the sale of shares. Losses from the sale of Shares cannot be carried forward and offset against future capital gains from the sale of shares.

#### **Limited liability companies**

For taxable limited liability companies, all gains from the sale or other disposal of Shares must be reported as income, subject to taxation at a rate of 18%. The gain shall be reported in full regardless of how long the company has owned the Shares. A gain is calculated as the difference between the sale price and average purchase price of all Shares of the same class and type. Amount equal to the gain realised from the sale of Shares in a limited liability company may be deducted from the income tax base, and thereby eliminating taxation of the income. Such deduction is only applicable if carry forward losses and the current fiscal year's loss have been utilised. From 1 January 2011, the deduction will also be dependent on a company owning at least 10% share in the company which shares are sold. Capital losses from the sale of Shares cannot be carried forward as losses from regular activities. If the withholding tax is higher than levied tax, then the difference will be refunded upon assessment of tax returns.

Specific tax consequences may be applicable to certain categories of companies, such as mutual funds and holding companies.

### **3.17.2 Tax considerations for non-residents of Iceland**

#### **3.17.2.1 Double taxation**

Relief or abolishment of taxation may be granted in an applicable double taxation treaty. Iceland has concluded double taxation treaties with 36 states. The treaties are generally in accordance with the OECD Model Tax Convention on Income and on Capital.

When non-residents are securing rights under a tax treaty, the income is reported in Iceland, with reference to the applicable treaty. The person or entity must also hand in a confirmation on tax residency, issued by a competent authority in the treaty state.

#### **3.17.2.2 Dividends**

The Issuer is obliged to withhold 18% tax on dividend paid to individuals not resident in Iceland and 15% tax on dividend paid to foreign legal entities. Qualified companies may apply for a reimbursement and/or an advance relief under the relevant provisions in double taxation treaties.

Limited liability companies (and some other forms of companies also) within the European Economic Area receiving dividend income from Iceland are allowed to file an Icelandic tax return and declare a dividend received deduction, as described in chapter "Limited liability companies" above and subsequently obtain a refund during assessment in the following year. Consequently there should be no effective tax burden for such companies in Iceland.

### **3.17.2.3 Sale of Shares**

Non-resident entities' gains from the sale of shares in Icelandic companies are subject to taxation in Iceland. The tax rate is 18% for individuals and 15% for legal entities. Double taxation treaties which Iceland has entered into with other nations generally exempt the gain of eligible non-residents from such taxation. According to the tax treaty between Iceland, Denmark, Norway, Sweden and Finland, non-residents of Iceland selling Shares in the Issuer will be subject to taxation in their country of residence. However, this does not apply if an individual has been resident in Iceland for the five years preceding the sale. Similar provisions may also be contained in other double taxation treaties Iceland has signed with other countries. Each Shareholder must therefore consider what possible consequences selling Shares in the Issuer will have.

Limited liability companies (and some other forms of companies also) within the European Economic Area selling shares in Icelandic companies with a gain and which are not exempt from taxation in Iceland based on double taxation treaty, are allowed to file an Icelandic tax return and declare a deemed deduction in the same amount as the gain. Such deduction is applicable any carry forward losses in Iceland, and the losses in the current fiscal year, have been utilised. From 1 January 2011, the deduction will also be dependent on a company owning at least 10% share in the company which shares are sold. Therefore, if deduction is applicable, if the companies own at least 10% Share in the Company and, subsequently, obtain a refund. Consequently there should be no effective tax burden for such companies in Iceland.

Icelandic brokers and persons acting as intermediaries are required to withhold the tax from the sale price unless they have been furnished with the Director of Internal Revenue's confirmation of the seller's exemption from such taxation prior to the transaction. Residents of treaty countries can apply for formal confirmation of their exemption from such taxation from the Director of Internal Revenue.

### **3.17.3 Stamp duty on Shares**

The Issuer's Shares are subject to stamp duty in Iceland, amounting to 0.5% of the Shares' nominal value, which the Issuer shall pay within two months from the issue of the Shares. Stamp duty has been paid for all 307,999,999 issued Shares as at the date of this Share Securities Note. Stamp duty for the 92,000,001 New Shares intended for issue on 20 December 2010 is to be paid within two months from issue date.

The sale of Shares is not subject to Icelandic stamp duty.

## 4. NOTICE TO INVESTORS AND INFORMATION ON DOCUMENT

### 4.1 Notice to investors

This Share Securities Note is made public in connection with the admission to trading of 92,000,001 New Shares in the Issuer on the Main Market of NASDAQ OMX Iceland, where Shares in Nýherji hf. are traded under the symbol “NYHR”. The New Shares are expected to be admitted to trading on 22 December 2010. The date when the New Shares will be admitted to trading will be made public at least one day in advance by NASDAQ OMX Iceland. The total number of issued Shares in Nýherji hf. is 307,999,999 Shares as at the date of this Share Securities Note and the intended issue of the 92,000,001 New Shares which is expected to take place on 20 December 2010 will raise the total number of issued Shares in the Company to 400,000,000.

This document constitutes a “Share Securities Note” for the purposes of the Act on Securities Transactions no. 108/2007 and of Directive 2003/71/EC of the European Parliament and of the Council of the European Union (the “European Prospectus Directive”) on the prospectus to be published when securities are offered to the public or admitted to trading, and the Commission Regulation no. 809/2004 on the implementation of the Directive. The Commission Regulation has been adopted into relevant Icelandic law by Icelandic Regulation no. 243/2006.

The NASDAQ OMX Iceland has approved this Prospectus and admits the New Shares to trading on the Main Market of NASDAQ OMX Iceland following the publication of the Prospectus of which this Share Securities Note is a part.<sup>4</sup>

This Share Securities Note does not constitute an offer to sell, or a solicitation of an offer to buy, the New Shares or any other securities and no offers of the New Shares will be made to the public in any member state of the European Economic Area. The New Shares have not been and will not be registered under the United States Securities Act of 1933 as amended, or the laws of any state of the United States. The New Shares have not been and will not be registered under the securities laws of Australia, Canada or Japan.

Any financial information more recent than 31 December 2009 (and information based on financial information more recent than 31 December 2009) which is provided in this Share Securities Note is not based on audited accounts, but based on information provided by the Issuer’s management, which includes the Issuer’s reviewed financial statements for the first 9 months 2010.

Information in this Share Securities Note or other documents which together form a prospectus should not be considered or construed as a promise by the Issuer, Manager or other parties, of future success in either operations or return on investment. Investors are reminded that investing in securities entails risk as the decision to invest is based on expectations and not promises. Investors must primarily rely on their own judgement regarding any decision to invest in the Shares issued by Nýherji hf., bearing in mind the business environment in which the Issuer operates, anticipated profits, external conditions, and the risk inherent in the investment itself. Prospective investors are advised to contact independent experts such as financial institutions to assist them in their assessment of Shares issued by Nýherji as an investment opportunity. Investors are advised to consider their legal status and any tax implications, which a purchase of securities issued by Nýherji hf. may have, and seek independent advice in that respect.

Since Nýherji’s Shares are admitted to trading on the Main Market of NASDAQ OMX Iceland, any information that in the opinion of the Issuer could have a significant impact on the market price of its securities is to be made publicly available in the European Economic Area in accordance with governing rules, regulations and legislation effective at the time. Publication of information is subject to provisions of the Act on Securities Transactions, no. 108/2007, and a regulation no. 707/2008 on Provision of information and Notification Requirements in accordance with Act No. 108/2007 on Securities Transactions.

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<sup>4</sup> In accordance with an agreement dated 10 December 2009, between the FME and the NASDAQ OMX Iceland on scrutinising and approval of prospectuses and public listing of securities, in which i.e. FME entrusts the NASDAQ OMX Iceland with the approval of prospectuses for securities which are to be traded on the NASDAQ OMX Iceland and with public listing of securities.

## **4.2 Documents incorporated by reference and on display**

This Share Securities Note, dated 17 December 2010 forms a part of a Prospectus, referred to as “The Prospectus” throughout this document (unless otherwise clear from the context). The Prospectus consists of the three following separate documents:

- a. this Share Securities Note, dated 17 December 2010;
- b. a Share Registration Document, dated 17 December 2010;
- c. a Summary, dated 17 December 2010.

This Share Securities Note is only published in English. This Share Securities Note is only published electronically and not as a hard copy. For the next twelve months counting from the date of this Share Securities Note, copies of the Summary, the Share Securities Note and the Share Registration Document who form a prospectus can be obtained from the Issuer’s website ([www.nyherji.is](http://www.nyherji.is)).

The Issuer will, in the event of any significant new factor, before the New Shares, which this Share Securities Note relates to, are admitted to trading on NASDAQ OMX Iceland, material omission or inaccuracy relating to information included in this Prospectus which can affect the assessment of the relevant Shares, prepare a supplement to this Prospectus in accordance with Article 46 of Act on Securities Transactions, no. 108/2007. If a supplement is prepared, statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in the Prospectus or in a document on display. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this document.

## **4.3 Manager and legal matters**

Arion Bank hf. – Corporate Advisory acts as the Manager of the arrangement for the admission to trading of the Issuer’s 92,000,001 New Shares on the Main Market of NASDAQ OMX Iceland hf., which this Share Securities Note relates to. The Manager has been the advisor to the Issuer in the preparation of this Share Securities Note and has in consultation with the management and the board of directors of the Issuer compiled this Share Securities Note, which is based on information gathered from the Issuer.

Attention is drawn to the following interests of the Issuer and the Bank. Arion Bank hf. – Corporate Banking is the Issuer’s largest creditor. Stefnir – Ís-15, a mutual fund managed by Stefnir hf. which is an asset management company and a subsidiary of Arion Bank hf., holds 1,173,870 Shares in Nýherji hf. as of 16 December 2010 and has committed to purchase 2,625,000 New Shares.

Tómas Jónsson, supreme court attorney, at Reykjavík Law Firm (Lögfræðistofa Reykjavíkur ehf., Icelandic reg. no. 560500-2890), with its registered office at Borgartún 25, 105 Reykjavík, Iceland has advised the Issuer as to Icelandic law on legal matters in connection with issues related to the 120,000,000 Share increase described in this Share Securities Note.

## **4.4 References and glossary of terms and abbreviations**

References to the “Issuer”, “Nýherji hf.”, “Nýherji”, the “Company” and the “Group” in this Share Securities Note shall be construed as referring to Nýherji hf., Icelandic reg. no. 530292-2079, registered office at Borgartún 37, 105 Reykjavík, Iceland, including its subsidiaries as it is composed at any relevant time unless otherwise clear from the context. References to the “management” in this Share Securities Note shall be construed as referring to the management of Nýherji.

References to the “NASDAQ OMX Iceland” in this Share Securities Note shall be construed as referring to the NASDAQ OMX Iceland hf., Icelandic reg. no. 681298-2829, registered office at Laugavegur 182, 105 Reykjavík, Iceland, unless otherwise clear from the context. References to the “admission to trading” and the “admission to trading on a regulated market” in this Share Securities Note shall be construed as referring to the admission to trading on the Main Market of NASDAQ OMX Iceland hf., unless otherwise clear from the context. Reference to “listed shares” in this Share Securities Note shall

be construed as referring to shares that have been admitted to trading at any regulated market<sup>5</sup>, unless otherwise clear from the context.

References to the “FME” in this Share Securities Note shall be construed as referring to the Icelandic Financial Supervisory Authority, registered office at Suðurlandsbraut 32, 108 Reykjavík, Iceland, unless otherwise clear from the context.

References to the “ISD” in this Share Securities Note shall be construed as referring to the Icelandic Securities Depository, i.e. to Verðbréfasráning Íslands hf., Icelandic ID-No. 500797-3209, Laugavegur 182, 105 Reykjavík, unless otherwise clear from the context.

References to “Arion Bank” and the “Bank” in this Share Securities Note shall be construed as referring to Arion Bank hf., Icelandic reg. no. 581008-0150, with its registered office at Borgartún 19, 105 Reykjavík, Iceland, unless otherwise clear from the context. References to the “Manager” in this Share Securities Note shall be construed as referring to Arion Bank – Corporate Advisory, which is a division of the Bank.

References to the “Shares” in this Share Securities Note shall be construed as referring to any shares in Nýherji hf.

References to the “New Shares” in this Share Securities Note shall be construed as referring to 92,000,001 New Shares in Nýherji hf. expected to be issued on 20 December 2010 which will increase the total issued Shares in the Company from 307,999,999 Shares (as at the date of this Share Securities Note) to 400,000,000. The New Shares are expected to be admitted to trading on the Main Market of NASDAQ OMX Iceland on 22 December 2010. The date when the New Shares will be admitted to trading will be made public at least one day in advance by NASDAQ OMX Iceland.

References to “Investors” in this Share Securities Note shall be construed as referring to the investors who subscribed for the 120,000,000 new Shares in September 2010 and made public 29 September 2010.

Other abbreviations than mentioned above, used in this Share Securities Note are listed in the following table:

<i>AGM</i>	Annual General Meeting
<i>CEO</i>	Chief Executive Officer
<i>ISK</i>	Icelandic króna

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<sup>5</sup> Regulated market as referred to in EU Directive 2003/71/EC of the European Parliament and the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements and as defined by Article 1(13) of Directive 93/22/EEC. EU Directive 2003/71/EC was implemented with Commission Regulation (EC) No. 809/2004 of 29 April 2004. The Commission's Regulation has been adopted into Icelandic law by Icelandic Regulation no. 243/2006.

#### **4.5 Persons responsible**

*Nýherji hf., in its capacity as the Issuer, with Icelandic reg. no. 530292-2079, registered office at Borgartún 37, 105 Reykjavík, Iceland, hereby declares that having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.*

*Reykjavík, 17 December 2010*

***On behalf of the Issuer***

***Benedikt Jóhannesson***

*Chairman of the board*

***Þórður Sverrisson***

*CEO*





# Share Registration Document

DECEMBER 2010



## TABLE OF CONTENTS

1. Risk factors .....	3
1.1 Financial crisis .....	3
1.2 General risks associated with investments in equities .....	4
1.3 Financial risk .....	4
1.4 Competition .....	6
1.5 Operational risk .....	7
2. Selected financial information .....	11
2.1 Consolidated statement of comprehensive income .....	11
2.2 Statement of financial position .....	12
2.3 Cash flow statement .....	13
3. General information .....	14
3.1 Issuer .....	14
3.2 Regulatory issues and applicable law .....	14
3.3 Objectives .....	14
3.4 Incorporation and history at a glance .....	15
3.5 Information on holdings .....	16
3.6 Legal structure .....	17
4. Business description .....	19
4.1 Products and services .....	21
4.2 Software and consultancy .....	25
4.3 The Icelandic IT market .....	30
4.4 Corporate outlook .....	31
5. Administrative, management, supervisory bodies, senior management and employees .....	32
5.1 Corporate governance .....	32
5.2 Statutory bodies .....	32
5.3 Board of directors and senior management .....	33
5.4 Holdings, remuneration and benefits .....	38
5.5 Auditors .....	39
5.6 Compliance officer .....	39
5.7 Employees .....	39
5.8 Related party transactions .....	40
6. Financial overview .....	42
6.1 A few significant accounting policies highlighted .....	43

6.2	Profit and loss - Statutory accounts.....	45
6.3	Statement of Financial Position – Statutory accounts .....	52
6.4	Cash flow statements - Statutory accounts .....	65
6.5	Investments and divestments .....	67
7.	Shares and Shareholders .....	68
7.1	Total issued Shares and authorised Share increase .....	68
7.2	Principal Shareholders.....	68
7.3	Development of the issued Shares.....	70
7.4	Dividend policy.....	70
7.5	Provisions in brief regarding Shareholders’ right .....	71
8.	Notice to investors and information on document.....	74
8.1	Notice to investors .....	74
8.2	Documents incorporated by reference and on display .....	74
8.3	Confirmation relating to third party information .....	75
8.4	References and glossary of terms and abbreviations.....	75
8.5	Manager and legal matters .....	77
8.6	Persons responsible .....	77

# 1. RISK FACTORS

Investing in shares is subject to numerous risks. Prior to making any investment decision regarding Shares in Nýherji hf., investors should consider all the information in this Share Registration Document and in the Share Securities Note of the relevant Prospectus, and in particular to consider the risks and uncertainties described below in this Share Registration Document and the chapter on risk factors in the Share Securities Note, that could materially affect Nýherji and any investment made in its Shares. The risks and uncertainties described in these two documents are those that the Issuer believes are most likely to materially affect the Company and any investment made in its Shares. If any of these events occur, the valuation and trading price of the Shares could decline and investors might lose a part or all of their investment. Additional risks and uncertainties that do not currently exist, that are not presently considered material, or of which Nýherji is unaware may also impair its business and operation. These risks and uncertainties could have a materially adverse impact on the business, liquidity, income, profits, assets and/or the Share price of Nýherji. The Issuer believes that the discussion covers the risks that are most likely to materially affect the Issuer but they are not listed in order of importance. The Issuer believes that this chapter under the heading “*1 Risk factors*” in this Share Registration Document includes a prominent disclosure of risk factors that are specific to the Issuer or its industry.

## 1.1 Financial crisis

The Icelandic economical environment has undergone major changes as a result of the financial turmoil following the collapse of Iceland’s largest financial institutions and the ISK in 2008. Borrowings in foreign denominated currency were common in Iceland as the interest rate on the ISK was high and consequently the debt of many companies increased significantly when the ISK collapsed. Leveraged balance sheets were unable to withstand those changes. The market value of companies listed on NASDAQ OMX Iceland hf. and unlisted companies tumbled just before and during the collapse and in many cases became nil. The balance sheet and Nýherji’s operations has also suffered losses due to the effects of the financial crisis, including a general decrease in demand, inflationary effects and the depreciation of the ISK. As a consequence Nýherji entered into discussions with its largest creditors, Arion Bank hf. and Íslandsbanki hf., to restructure the Group’s long-term obligations.

The depreciation of the ISK has led to high inflation. Unemployment increased from being 2.3% in 2007 to reach approximately 6.4% during the third quarter of 2010. These developments in the Icelandic economy pose a risk to the operating environment of companies as they are likely to reduce the purchasing power of its customers leading to a drop in demand for companies’ products and services.

The political legal environment<sup>1</sup> in Iceland is currently unstable as legal bills are pending and since the collapse laws have been passed by the parliament that have led to unforeseen changes in the Icelandic legislation. Act no. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc. and Act No. 134/2008 on Amendment of Act on Foreign Exchange no. 87/1992, as amended have resulted in structural changes. There is a risk that political events can directly and indirectly affect the operations of Nýherji, e.g. extended currency controls, changes in the legal and regulatory environment or taxes and tariffs. A sharp depreciation of the ISK led to currency controls being imposed. The currency restrictions limit the ability of foreign investors to exit investments in Icelandic securities they have entered into prior to the currency restrictions. New investments by foreign parties are however more feasible as an exit is allowed under the current laws and regulations on the currency restrictions. Furthermore, Icelandic investors are not allowed under the current regime to invest abroad. The operations of Nýherji and an investment in its Shares can be affected by any changes made to the currency restrictions. This can include imposing further restrictions, e.g. limiting new investments by foreign entities. The operations of Nýherji could also be affected by any easing or the abolishment of the capital controls, e.g.

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<sup>1</sup> Political legal environment is when the government implements laws and/or regulations which effects the way a business operates.

should that lead to non-residents or residents exiting their Icelandic investments or rising interest rates in order to deter the depreciation of the ISK.

## **1.2 General risks associated with investments in equities**

Yield on equities consists of dividend payments and of the change in share prices, i.e. profit or loss resulting from the difference between the price per share on purchase and at sale. It must be borne in mind that shares comprise investors' residual claim or interest in the company's assets, after other liabilities. All other things being equal, investing in equities involves greater risk than investing in bonds and equity prices generally undergo greater fluctuations than do bond values and can drop to a value of nil as the recent economic downturn has shown. The risk involved in investing in individual companies can be spread by investing in a portfolio of companies of different types. Nevertheless, it is not possible to avoid risks that affect the equity market as a whole, e.g. currency exchange fluctuations, changes in the economic outlook, etc.

The financial and equity markets are subject to the business environment created by public authorities. Major changes in the regulatory framework set by public authorities for financial and equity markets can have a negative impact and create market unrest.

The financial crisis has significantly reduced trading volume in markets of NASDAQ OMX Iceland hf. Liquidity risk is defined as the risk that arises from how easy or difficult it is to sell an asset for a price as close to its expected real value as possible. The measurement of this type of risk is the spread between bid and ask prices on the market. The risk is both dependent upon the transaction amount, i.e. whether the market will absorb at real value the quantity an investor wishes to sell, and the price, since a large transaction on a company's shares can have a substantial impact on price formation.

The ownership structure can be a risk factor for investors. Investors should be aware of the fact that ownership of the Issuer can change rapidly and without any prior warning. As a result of the equity increase announced 29 September 2010, which equals 42.9% of previously issued Shares and is part of the refinancing of the Company, the proportional ownership of Shareholders has changed. The Issuer has no knowledge of any agreements between Shareholders on the treatment of voting rights or knowledge of any arrangements which may at a subsequent date result in a change of control of the Issuer. Investors are advised to study the information on the largest Shareholders under the heading "7.2 Principal Shareholders" in this Share Registration Document.

## **1.3 Financial risk**

### **1.3.1 Funding and liquidity risk**

Funding risk relates to long-term financing of the Group. On 29 September 2010 it was announced that the Company had made agreements on refinancing its long-term obligations. Nýherji has signed agreements that same date with its largest creditors, Arion Bank hf. and Íslandsbanki hf., on the reorganization of long-term loans, and signed agreements with investors on an increase of Share capital. The documentation with the banks was finalised in December 2010.

Following the agreements on refinancing, the Company's interest-bearing debt is ISK 2,855 million and the equity ratio 30.8% pro forma 30 September 2010. For the majority of the debt, the payment profile includes regular payments for the next 3.5 years according to a 15-year payment schedule and the remainder due before mid year 2014. For further information see the table highlighting the Company's contractual obligations as of 30 September 2010 pro forma in chapter "6.3.6 Capital resources". In order to lower the Company's debt, its real-estate at Borgartún 37, where the Company's headquarters are located, were sold to an investment company nominated by Íslandsbanki hf. and parallel to this, the Company signed a 15-year lease agreement for the real-estate. A part of the loan principal decreases because of debt restructuring from foreign to domestic loans. The increased Share capital will mainly be used to reduce long-term borrowings. The new Shares total 120,000,000 at nominal value, equal to 42.9% of previously issued Shares at that time and were sold at ISK 840 million or at the price of ISK 7.0 per Share.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Apart from long-term loan commitments, the Company needs to pay promptly its suppliers and other creditors within a stipulated grace period. The Company extends its larger customers a grace period on its purchases of equipment and services. Nýherji is therefore subject to liquidity risk. In order to being able to meet its obligations towards suppliers and other creditors, Nýherji has made agreements on revolving credit facilities. Furthermore, the Company's approach to managing liquidity through budget and supervision 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 Company's reputation.

The turmoil in financial markets and the collapse of the majority of Iceland's financial institutions has resulted in less access to both short-term and long-term financing. This can pose a risk to Nýherji's operations in order to finance profitable investment opportunities.

### **1.3.2 Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet its contractual obligations and arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding receivables and committed transactions.

Nýherji's exposure to credit risk is influenced mainly by accounts receivable. The Company extends its larger customers a grace period on its purchases of equipment and services. In 2009, approximately 22% of the Company's turnover was related to sales of equipment and services to the five largest customers. There is a risk that the loss of individual customers can have a significant effect on Nýherji's operating results and balance sheet.

The Group has established credit rules whereby all new clients are assessed before they are granted a grace period. The payment history of new clients is examined and they are granted maximum withdrawal limits. Most clients of the Group have been doing business with the Group for many years and lost receivables represent an insignificant proportion of turnover. When managing credit risk associated with clients, particular attention is paid to the age of claims and the financial position of individual clients. The Group's accounts receivable and other claims are mainly owed by companies and retailers. Clients who are categorised as high risk or who have reached their maximum credit limit cannot conduct further transactions with the Group unless they pay off their debts or the Group's financial division approves further withdrawals. Goods are sometimes sold with a reservation on title of ownership, meaning that if the debt created upon sale is not collected, the Group can repossess the goods. The Group generally does not demand security for accounts receivable and other claims.

Nýherji establishes an allowance for impairment that represents its estimate of incurred losses in respect of accounts receivable, 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.

### **1.3.3 Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments.

#### **Currency risk**

Nýherji's reporting currency is the Icelandic króna (ISK) and the company's turnover is mostly denominated in ISK but also in Danish krona (DKK) through its subsidiaries in Denmark. The company's suppliers are outside Iceland, hence purchases are mostly denominated in other currencies than the ISK. The currencies in which these transactions primarily are denominated are Danish krona (DKK), euro (EUR), Swedish krona (SEK), US dollar (USD) and pound sterling (GBP).

The currency restrictions in place in Iceland affect Nýherji's operations to some extent. Further restriction may impact Nýherji as a substantial proportion of its equipment sale is in Iceland and denominated in the ISK, but a substantial proportion of its purchases are from abroad and therefore denominated in a currency other than the ISK. The easing of the currency restriction may lead to fluctuations in the value of the ISK which can impact the sales and margins of Nýherji's operations as hedging abilities are currently limited. A substantial devaluation of the ISK against foreign currencies will in general have a negative effect on Nýherji's operations since there is no guarantee that increased cost of goods sold can be met with price increases in the sectors Nýherji operates in.

Nýherji does not hedge its trade payables denominated in a foreign currency as there is no effective market with forward exchange contract in Iceland. The currency risk in the Group is partly limited, due to the fact that the currency combination of assets and liabilities is consistent with cashflow from operation. Whilst it tries to reduce the risks caused by fluctuations in exchange rates, Nýherji cannot completely eliminate such risks, especially under current currency restrictions.

Nýherji has a material part of its bank debt in foreign currencies, or approximately 46% after the refinancing of its long-term obligations. Fluctuations in exchange rates may therefore adversely affect Nýherji's financial costs and net income.

#### **Interest rate risk**

Interest rate risk arises from Nýherji's exposure, due to its financial obligations, to adverse movements in interest rates and conditions in financial markets. All of Nýherji's borrowings carry variable interest rates. Changes in interest rates can therefore affect Nýherji's net income and cash flow.

#### **Inflation risk**

High inflation will in general have a negative effect on Nýherji's operations since expenses such as lease payments will increase since they are linked to consumer price index and there is no guarantee that increased expenses can be met with price increases in the sectors Nýherji operates in.

#### **1.3.4 Economic conditions and trends**

The operation of IT companies is effected by general economic trends, as demand and margin increase in upswings. Technological developments also affect the operation and developments within the IT industry are closely linked to general economic trends. A downward economic trend could negatively affect Nýherji's sales and earnings.

Nýherji has operations in Iceland, Denmark, Sweden and UK and revenue is generated in these countries, thus Nýherji is not only dependent on economic and other market conditions and trends in Iceland.

#### **1.4 Competition**

There are risks relating to competition, the arrival on to the market of new market participants, changes to the largest suppliers and customers or technological innovations which change market focuses and at the same time the market share of the Issuer. Furthermore, the economic climate, administrative changes in Iceland and the countries in which the Group operates could affect its operations and performance. The growth of the Icelandic economy in recent years does not necessarily provide any indication of future trends and the aforementioned factors play an important role in the future development of the company.

Nýherji hf. and its subsidiaries all operate on competitive markets and are therefore dependent on market conditions at any given time. Market risk is one of the chief risk factors in the operations of information technology companies.

The Issuer is at risk of losing business owing to changes in the competitive environment. Precise information on the size of the information technology market in Iceland is not available but the Group is one of the

largest players on the market in terms of turnover, but does not have a dominant position<sup>2</sup>. There are various competitors on the information technology, specialising in software solutions, advice and datahosting. The main competitors in the IT (information technology) business are Opin kerfi and EJS. The main competitors in software solutions and hosting are Skýrr, HugurAx, Teris, Þekking, Annata and Maritech<sup>3</sup>. In addition to its Icelandic operation, the Company also has operations in Denmark, Sweden and the United Kingdom but its market share on these markets is minimal.

## **1.5 Operational risk**

Operational risk is the risk of direct loss, indirect loss, or damage as a result of people's reputation, systems, inadequate or failed internal processes or from external events. There is a risk that Nýherji's business may not deliver its stated strategy in full, particularly since the business is susceptible to economic downturns that could affect consumer spending. Nýherji tries to deliver what customers want better than its competitors by understanding and responding to customer behaviour. Nýherji's aim is to have broad appeal to all of its customers in its different markets, minimising the impact of changes to the economic climate.

### **1.5.1 Business strategy**

If the Company's strategy follows the wrong direction or is not efficiently communicated, then its business may suffer. Nýherji needs to understand and properly manage strategic risk in order to deliver sufficient earnings and long-term growth for the benefit of all its stakeholders.

### **1.5.2 Key employees**

The operation of IT companies is based on qualification, experience and commitment of employees. If personnel turnover is high and experienced people leave the company, there is a risk that the Company can lose a significant part of its expertise, experience and business relationships, even to its competitors.

Nýherji focuses on minimising this risk by maintaining a clear employee and compensation strategy where the main focus is on keeping qualified people on board. Nýherji places an emphasis on being an attractive place to work and on offering competitive compensation, but it can never be certain of obtaining and retaining the employees it requires. This is a challenge in downturns as well as upswings, as in recent years the Company has been forced to reduce the number of full-time employees by around 180 since the fall of 2008 and to lower wages by 10% in February 2009. It is important for Nýherji to be able to attract and retain capable employees. If Nýherji is unable to recruit new qualified employees, this could affect Nýherji's ability to develop the business.

Management risk relates to management, knowledge and organisation within the Group. In order to minimize this risk, the Group puts emphasis that the responsibility and commandment of each director and division is clear.

### **1.5.3 Fraud and compliance**

Nýherji's operations are extensive and this imposes increased risk of fraudulent behaviour by its employees. The Company has no reason to believe that its employees are not honest. Nýherji maintains constant supervision to reduce the risk of dishonest behaviour at all levels of the business. Nýherji is dependent on having sufficient internal controls in place in various areas. Should such controls prove, however, to be insufficient, this may have a negative impact on Nýherji.

### **1.5.4 Inventories**

The main risk related to inventories is that their value can decrease or they can become obsolete as a result of technological innovations and/or other factors which could have an effect on demand. Inventories older

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<sup>2</sup> According to management estimation and Frjáls Verslun issue 8-9 2010 (300 largest)

<sup>3</sup> According to management estimation and Frjáls Verslun issue 8-9 2010 (300 largest)

than one year are assessed at fair value in the Group's accounts. The Group's inventories at 30 September 2010 amounted to ISK 648 million, divided into inventories in stores and the warehouse (ISK 591 million), work in progress (ISK 5 million) and spare parts (ISK 52 million).

### **1.5.5 Changes in operation**

The Group has undergone considerable change in recent years. The Group experienced external and organic growth, which led to an increase in investments and higher operating expenses in the years 2005-2008. During the last two years, the Company has been facing a downturn and necessary cuts in operating expenses. If such changes are not carefully managed in the Group's day-to-day operations, it could have a considerable effect on its financial position and performance.

### **1.5.6 Regulatory and legal risk**

#### **1.5.6.1 Applicable law, governmental regulation and licences**

Nýherji is subject to various laws and regulations in the countries it operates in. Changes to Nýherji's applicable laws, new representation of current laws, or the Company becoming subject to different laws, might have an impact on how it continues to conduct its business.

#### **1.5.6.2 Contractual risk and covenants**

Nýherji is contractually bound to honour various agreements with licensors, suppliers, customers and creditors. Should Nýherji become unable to fulfil the relevant covenants, or for some reason stop doing so, the counterparties may become entitled to rescind these agreements, which might have adverse financial consequences for Nýherji.

The nature of the operations of the Company is such that they need licences from relevant parties relating to service, software and hardware provided to customers and to be able to purchase equipment, spare parts and maintenance service from suppliers at current terms. Generally a licence is subject to the Company having sufficient knowhow to be able to sell and service the relevant equipment. This applies to goods from e.g. IBM, Lenovo, Canon, Sony, Avaya, SAP and various other suppliers. Should these licences be revoked or changes made to them in any way, it might impose a risk to the operations of the Company.

A good business relationship with customers is important to the Company. A rescission or changes to agreements on large projects or long-term service agreements with large customers can adversely affect the Company's earnings. In the first nine months of 2010, approximately 21.5% of the Company's turnover was related to sales of equipment and services to the five largest customers.

Covenants in major loan agreements relate to earnings and financial leverage of the Company. Interest rate terms may change subject to covenants and should Nýherji become unable to fulfil covenants in loan agreements, it could cause accelerated repayment of borrowings or even authorise a creditor to call in the entire debt.

The Company's debt can be accelerated if the Share increase of ISK 840 million and new equity have not been paid to the Company before 15 January 2011.

The Company's debt can be accelerated if the Company does not deliver acceptable operational results. The Company's EBITDA shall be measured at the end of each quarter of the financial year and presented to the creditors within one month from the end of the quarter. If EBITDA of the last 12 months is below certain levels and the ratio of net interest bearing debt to EBITDA is higher a certain level, as defined in the loan agreements, the creditors can call in the debt.

#### **1.5.6.3 Securities regulation**

Since Nýherji's Shares are traded on the Main Market of NASDAQ OMX Iceland hf., it is subject to Icelandic securities regulations, e.g. Act no. 108/2007 on Securities Transactions, government regulations and rules adopted by NASDAQ OMX Iceland hf. Nýherji endeavours to comply with the said provisions, and any violation of these provisions may have a financial impact on it. Serious breaches may result in the NASDAQ OMX Iceland hf. removing Nýherji's securities from trading on NASDAQ OMX Iceland Main

Market. Should Nýherji violate the relevant rules, this may furthermore impact its reputation and consequently result in the price of its Shares dropping.

#### **1.5.6.4 Litigation and disputes**

Given Nýherji's size and the scope of its operations, it tends to be involved in some form of disputes at any given time, but litigation is not common. Nýherji is not, and has not been in the previous 12 months, involved in any legal disputes that could materially affect the Company or aware of any pending issues that could materially affect the Company.

#### **Bankrupt subsidiary**

Nýherji acquired the IT company Roka ehf. in February 2008 (then named TM Software hf.), and following a restructuring of the organisation, Roka ehf. sold part of its assets to Nýherji on 2 January 2009. In March 2010, this subsidiary of Nýherji hf., Roka ehf. was declared bankrupt by the District Court of Reykjanes. The purchase price for part of Roka ehf.'s assets was paid for by netting of debt and a takeover of part of Roka ehf.'s debt to Íslandsbanki hf. The following assets were acquired by Nýherji hf.:

- Two real estate at Kaupvangsstræti 4 and Skipagata 18 in Akureyri, for ISK 50 million.
- Automobiles, computer equipment and furniture for ISK 40 million.
- Seven subsidiaries of Roka ehf.: Skygggnir ehf. upplýsingaþjónusta, TM Software Origo ehf., eMR hugbúnaður ehf., Vigor ehf., Viðja viðskiptaumsjón ehf., TM Software ITP ehf. and Theriak Medication Management ehf., for ISK 783 million. In the sales and purchase agreement for the subsidiaries it is stated that the purchase price might be reduced if the value of the subsidiaries turns out to decrease substantially, i.e. at least 10% of the total purchase price.

The deadline for filing a statement of claims in the Roka ehf. estate was 20 July 2010. The total claims filed amounted to ISK 4,943 million, but claims for only ISK 113 million have been approved by the estate. The largest claimants to the bankrupt estate in addition to Nýherji are Faghús ehf. and Straumur-Burðarás fjárfestingarbanki hf. (now ALMC hf.). The claims of Faghús ehf. relate to lease agreement for Urðarhvarf 6 while the claims of Straumur-Burðarás fjárfestingarbanki hf. relate to a loan agreement nominated in foreign currency.

One creditors meeting has been held where the legitimacy of the fore mentioned purchase was discussed. A claimant to the estate was given time to decide whether it was willing to guarantee the cost of the estate for a legal proceeding where the legitimacy of the purchase would be challenged. The claimant has not notified the estate of its stance.

If proven, during such legal proceedings, that Nýherji has profited by purchasing the above mentioned assets below fair value, Nýherji may be liable to reimburse the estate by an amount equal to the profit gained, however, not exceeding the damage suffered by the estate from the transaction.

Nýherji would be allowed to state its claims forfeited in lieu of the assets received, and enjoy equal status to other claimants with similar claims, if the estate approves the claims.

#### **1.5.6.5 Tax**

Nýherji has been affected by changes in tax legislation in Iceland and further changes in the future are likely to affect Nýherji's operations. Since the collapse of the Icelandic banks in October 2008 and the sharp economic downturn Iceland is experiencing, tax burden has been increased and excise duties on imported products have been increased. As of 1 January 2010, income tax on companies was increased from 15% to 18% (and a further increase to 20% may be pending, according to proposed changes in the Income Tax Act), the value added tax (VAT) was increased from 24.5% to 25.5% and the capital tax was raised from 10% to 18% (and a further increase to 20% may be pending, according to proposed changes in the Income Tax Act). Social security contribution was raised from 5.34% to 8.65%. The social security contribution payable by employers and is calculated from the aggregate salaries paid to employees. As of 1 January 2009, the income tax on individuals was raised from 35.7% to 37.2-45.2% and as of 1 January 2010 to 37.2-46.1%. These factors may lead to changes in the demand for the Company's products and therefore have an impact on its operations and the value of its Shares.

Nýherji is not aware of any ongoing tax inspection concerning itself or its subsidiaries which may have a material impact on its financials. An investigation of Nýherji's tax filings, as for any other company, may be initiated at a later stage in accordance with relevant regulations and affect Nýherji's prospects. Nýherji is of the opinion that it is in compliance with the relevant tax regulations and practices and should not expect claims from tax authorities relating to its treatment of income or any other financial issues.

#### **1.5.7 Reputational risk**

Reputational risk is the risk that Nýherji will suffer a loss of revenue due to negative publicity regarding its business practices. This negative publicity may result from Nýherji making mistakes in its business, not reaching its business strategy or from Nýherji or a related party being accused of not acting in conformity with code of conduct or accused or convicted of not acting in conformity with the law. If Nýherji's reputation or credibility is negatively affected, owing to private or public discussion, Nýherji's ability to grow may be impaired and future earnings may be adversely impacted. Nýherji's reputation is important for the Company which therefore systematically tries to maintain and improve its reputation and spends a part of its market cost for such effort among its customers and other parties.

#### **1.5.8 IFRS**

Nýherji's annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). Nýherji has prepared the consolidated statements according to IFRS since and including the financial year 2005. IFRS is under constant review and amendments to the standards might have an effect on the reported income of Nýherji. The preparation of annual accounts in accordance with IFRS requires that management makes decisions, performs assessments and draws conclusions which have an effect on the implementation of accounting methods, and publishes figures on assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and conclusions forming the basis of this are under constant review.

#### **1.5.9 Insurance and guarantees**

It is Group policy to grant guarantees only to its subsidiaries. At the end of 2009 such guarantees totalled ISK 470 million. Pledges and liens on operating assets of the Group to cover debts amounted to ISK 1,267 million at the end of 2009.

Nýherji has all mandatory insurance policies in force such as fire insurance and insurance covering its employees. Nýherji has profit and loss insurance which will cover losses due to a halt in operations for up to 12 months. Imports, exports, property and equipment, inventory, display equipment etc. are insured. The Company has work stoppage insurance which insures against extra costs such as lease, instalment and removal costs which might be incurred if the Company's premises become unusable on account of water or fire damage, for example. The Company has also insured furnishings against damage resulting from fire, water and break-ins. The Company also has liability insurance for its employees and accident insurance for its salary earners in accordance with the liability towards its employees stipulated in union-negotiated wage agreements.

The Company has directors' and officers' insurance policies in force. Nýherji has bought separate third party liability insurance for the board of directors and management with respect to actions they may take or a lack of action. The insured amount is ISK 100 million a year. No claims have been made.

## 2. SELECTED FINANCIAL INFORMATION

This section gives an overview of Nýherji's financial historical performance. Nýherji's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The financial statements for 2007, 2008 and 2009 have been audited and the nine months for 2010 have been reviewed by Nýherji's auditors KPMG hf.

The presentation is in accordance with revised IFRS IAS 1 *Presentation of Financial Statements (2007)*, which came effective as of 1 January 2009. As a result, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented for 2008 and 2007 so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per Share.

The reviewed nine month financial statements 30 September 2010 include the issue of 120,000,000 new Shares at the price of ISK 7.0 per Share for a total price of ISK 840 million. Thereof unpaid Share capital in the amount of ISK 644 million is capitalised in the statement of financial position as at 30 September.

The pro forma figures for 30 September 2010 include the decrease in the Company's interest bearing debt by a total of ISK 2,245 million as a result of the financial restructuring the Company's debt has undergone. That includes a sale of the Company's real estate at Borgartún 37 to a company in the ownership of Íslandsbanki hf. at a price of ISK 1,650 million. At the same time the Company has signed a 15-year lease agreement on Borgartún 37. The Company reached agreements with Arion Bank hf. and Íslandsbanki hf. on the restructuring of the Company's long-term debt, where the effective debt repayment schedule will be seven to fifteen years, a part of the loans will be converted from foreign currency to ISK and their principal will decrease. The adjustments made in pro forma financial position as at 30 September 2010 reduce the Company's interest-bearing debt to ISK 2,855 million and increase the equity ratio to 30.8%.

### 2.1 Consolidated statement of comprehensive income

<b>Consolidated statement of comprehensive income</b> <i>(ISK m)</i>	<b>2010</b> <i>9 m</i>	<b>2009</b> <i>9 m</i>	<b>2009</b>	<b>2008*</b>	<b>2007*</b>
Sales of goods and services	10,273	10,339	14,332	14,913	11,301
Cost of goods and service sold	(4,598)	(4,343)	(6,355)	(6,820)	(6,318)
<b>Gross profit</b>	<b>5,675</b>	<b>5,996</b>	<b>7,977</b>	<b>8,092</b>	<b>4,984</b>
Other income	12	11	14	23	54
Salaries and related expenses	(4,162)	(4,521)	(6,080)	(5,952)	(3,295)
Other operating expenses	(1,198)	(1,495)	(1,973)	(1,854)	(1,036)
<b>EBITDA</b>	<b>327</b>	<b>(9)</b>	<b>(62)</b>	<b>309</b>	<b>706</b>
Depreciation	(216)	(152)	(273)	(250)	(106)
Impairment losses on goodwill	-	(180)	(322)	-	-
<b>EBIT</b>	<b>111</b>	<b>(341)</b>	<b>(657)</b>	<b>59</b>	<b>600</b>
Net finance expense	(151)	(504)	(667)	(1,480)	(92)
Effect of bankrupt subsidiary	246	-	-	-	-
<b>Profit (loss) before income tax</b>	<b>207</b>	<b>(845)</b>	<b>(1,324)</b>	<b>(1,421)</b>	<b>508</b>
Income tax	3	(70)	(37)	220	(88)
<b>Profit (loss) for the period</b>	<b>210</b>	<b>(914)</b>	<b>(1,361)</b>	<b>(1,201)</b>	<b>420</b>
Foreign currency translation differences	(78)	45	8	430	(4)
Revaluation of buildings less income tax	-	692	667	-	-
<b>Total comprehensive income (loss) for the period</b>	<b>132</b>	<b>(178)</b>	<b>(686)</b>	<b>(771)</b>	<b>416</b>

**Key ratios**

Sales growth	-0.6%	-	-3.9%	32.0%	30.7%
EBITDA growth	3594.6%	-	-120.1%	-56.2%	3.4%
EBIT growth	132.7%	-	-1218.7%	-90.2%	2.8%
Gross margin	55.2%	58.0%	55.7%	54.3%	44.1%
EBITDA margin	3.2%	-0.1%	-0.4%	2.1%	6.2%
EBIT margin	1.1%	-3.3%	-4.6%	0.4%	5.3%
Salaries / sales	40.5%	43.7%	42.4%	39.9%	29.2%
Operating expenses / sales	11.7%	14.5%	13.8%	12.4%	9.2%

\* Figures for 2007 and 2008 have been re-presented so that they are in conformity with the revised standard IFRS IAS 1 *Presentation of Financial Statements (2007)*, which came effective as of 1 January 2009. Figures for 2008 are sourced from the 2009 financial statements but the re-presented figures for 2007 are based on information provided by the Issuer's management.

**2.2 Statement of financial position**

<b>Consolidated statement of financial position</b> <i>(ISK m)</i>	<b>30.09.10</b> <i>Pro forma</i>	<b>30.09.10</b>	<b>31.12.09</b>	<b>31.12.08</b>	<b>31.12.07</b>
Property and equipment	524	2,107	2,103	1,386	1,155
Intangible assets	3,715	3,715	3,958	4,151	1,178
Investments in other companies	-	-	-	-	14
Deferred tax assets	53	85	94	242	-
Long-term notes	17	17	18	38	17
<b>Total non-current assets</b>	<b>4,309</b>	<b>5,924</b>	<b>6,174</b>	<b>5,817</b>	<b>2,364</b>
Inventories	648	648	631	647	694
Trade and other receivables	2,642	2,642	2,406	3,199	2,486
Unpaid Share capital	-	644	-	-	-
Cash and cash equivalents	112	112	385	468	118
<b>Total current assets</b>	<b>3,403</b>	<b>4,047</b>	<b>3,421</b>	<b>4,313</b>	<b>3,298</b>
<b>Total assets</b>	<b>7,711</b>	<b>9,970</b>	<b>9,595</b>	<b>10,130</b>	<b>5,661</b>
Share capital	395	395	275	276	226
Share premium	1,791	1,791	1,084	1,097	153
Reserves	410	1,056	1,139	464	29
Accumulated deficit	(236)	(1,032)	(1,245)	105	1,341
Equity attributable to equity holders of the Parent Company	2,359	2,209	1,253	1,942	1,750
Non-controlling interest	14	14	11	22	14
<b>Total equity</b>	<b>2,373</b>	<b>2,223</b>	<b>1,264</b>	<b>1,964</b>	<b>1,764</b>
Loans and borrowings	2,097	2,562	1,523	2,669	1,111
Deferred tax liabilities	2	2	3	-	70
<b>Total non-current liabilities</b>	<b>2,099</b>	<b>2,564</b>	<b>1,526</b>	<b>2,669</b>	<b>1,181</b>
Loans and borrowings	758	2,538	4,014	2,343	553
Tax payables	-	-	-	16	-
Trade and other payables	2,481	2,645	2,791	3,138	2,163
<b>Total current liabilities</b>	<b>3,239</b>	<b>5,183</b>	<b>6,805</b>	<b>5,497</b>	<b>2,717</b>
<b>Total liabilities</b>	<b>5,338</b>	<b>7,748</b>	<b>8,331</b>	<b>8,166</b>	<b>3,897</b>
<b>Total equity and liabilities</b>	<b>7,711</b>	<b>9,970</b>	<b>9,595</b>	<b>10,130</b>	<b>5,661</b>

**Key ratios**

Equity ratio	30.8%	22.3%	13.2%	19.4%	31.2%
Net interest bearing debt / Equity	1.2x	2.2x	4.1x	2.3x	0.9x
Net interest bearing debt / EBITDA	*10.0x	18.2x	-82.8x	14.7x	2.2x
EBITDA interest coverage	2.2x	2.2x	-0.1x	0.2x	7.4x
EBIT interest coverage	0.7x	0.7x	-1.0x	0.0x	6.3x
Days inventory outstanding (DIO)**	38	38	36	35	40
Days sales outstanding (DSO)***	60	60	56	69	71
Days payable outstanding (DPO)****	56	56	75	80	38

\* Trailing 12 months (first nine months 2010 plus Q4 2009)

\*\* DIO is calculated as: (inventory at end of period/cost of goods and service sold) x 365

\*\*\* DSO is calculated as: (accounts receivable at end of period/sales) x 365

\*\*\*\* DPO is calculated as: (accounts payable at end of period/cost of goods and service sold) x 365

**2.3 Cash flow statement**

<b>Consolidated cash flow statement</b> <i>(ISK m)</i>	<b>2010</b> <i>9 m</i>	<b>2009</b> <i>9 m</i>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net profit (loss) profit for the period	210	(914)	(1,361)	(1,201)	420
Working capital provided by (used in) operating activities	327	(9)	(62)	306	695
Net cash (used in) provided by operating activities	(217)	(269)	(59)	79	156
Net cash used in investing activities	(197)	(78)	(149)	(1,450)	(332)
Net cash provided by financing activities	163	166	104	1,638	24
Net (decrease) increase in cash and cash equivalents	(252)	(181)	(104)	267	(151)
Effect of exchange rate fluctuations on cash held	(22)	16	21	83	(3)
Cash and cash equivalents at beginning of the year	385	468	468	118	272
Cash and cash equivalents at the end of the period	112	302	385	468	118

### 3. GENERAL INFORMATION

#### 3.1 Issuer

*Legal and commercial name* Nýherji hf.  
*Icelandic ID-No.:* 530292-2079  
*Place of registration:* Iceland  
*Legal form:* Public company in accordance with the Icelandic Act no. 2/1995 respecting Public Limited Companies  
*Total issued Shares:* 307,999,999 Shares as of the date of this Share Registration Document, will be 400,000,000 Shares past the intended issue of 92,000,001 New Shares, nominal value ISK 1 per Share  
*Ticker:* NYHR  
*ISIN code:* IS0000000396

*Domicile / Registered office / Headquarters:* Borgartún 37, 105 Reykjavík, Iceland  
*Website:* [www.nyherji.is](http://www.nyherji.is)  
*Email:* [nyherji@nyherji.is](mailto:nyherji@nyherji.is)  
*Telephone number:* +354 569 7700

*Last Annual General Meeting:* 19 February 2010  
*Next Annual General Meeting:* 18 February 2011 intended

*Publication of Consolidated financial statements 2010:* 28 January 2011 intended

#### 3.2 Regulatory issues and applicable law

Nýherji hf. is registered in Iceland and operates pursuant to Act no. 2/1995 respecting Public Limited Companies. The Group's international operations are subject to the applicable laws in each country where such activities are carried out, as well as the general laws and regulations of these countries regarding the operation of companies and conduct generally.

#### 3.3 Objectives

According to Article 1.3 of the Issuer's Articles of Association, the objectives of the Company is to offer complete solutions in the fields of information technology to its customers, including software development, provision of hardware and office equipment, consultancy and related service, and additionally the Company invests in related business.

### 3.4 Incorporation and history at a glance

Nýherji hf. was incorporated 23 January 1992 and started operation on 2 April 1992 by the merger of IBM á Íslandi hf. (IBM Iceland) and Skrifstofuvélar-Sund hf. Ever since Nýherji was established, the Company has been one of the strongest players in the Icelandic IT market. Its founders were IBM Denmark, Draupnissjóðurinn hf., Vogun hf., Skrifstofuvélar-Sund hf. and a number of management staff of IBM Iceland.

Despite its relatively recent formation, the company has deep roots in Icelandic business, for example the history of Skrifstofuvélar-Sund can be traced to the year 1899. IBM Iceland had its origins in the founding of Skrifstofuvélar hf. in 1946 which in 1949 became the franchise holder for IBM in Iceland. Subsequently, IBM Iceland was established in 1967 as a separate company owned by IBM but half of Skrifstofuvélar's employees were shifted to IBM Iceland. In 1987 the operation and inventories of Skrifstofuvélar hf. was acquired by Gísli J. Johnsen – Skrifstofubúnaður sf. (renamed Skrifstofuvélar – Gísli J. Johnsen hf.) which then became the largest in Iceland in providing computer and office equipment and with licence for many of the largest names in that field. In 1990 the company was acquired by Óli Kr. Sigurðsson and named Skrifstofuvélar-Sund hf.

In 2000 the subsidiary Klak ehf. was founded in order to utilise the experience and expertise possessed by Nýherji with respect to start-up companies in the IT sector. Another subsidiary, SimDex ehf., was also set up in 2000 to manage the further sales and development of the parent company's communications solutions. In the year 2002 Nýherji acquired the operation of the telephony solutions company HT&T-heildlausnir í tölvu- og tæknibúnaði ehf., in order to strengthen its product supply and services in the field of telephony infrastructure for companies. HT&T-heildlausnir í tölvu- og tæknibúnaði ehf. was merged with Nýherji hf. in 2004.

At the beginning of the 2000s, Nýherji focused on strengthening its consulting and solutions division in SAP for projects in Iceland and for its clients overseas. The Company acquired AppliCon A/S in Denmark in 2005 and simultaneously established Nýherji A/S; the aim of this acquisition was to utilise synergies with a company which had vast experience in SAP solutions. AppliCon ehf. was founded in Iceland the same year and the holding company Applicon Holding ehf. where the Applicon operations in Iceland and Denmark belong to. Applicon companies were subsequently founded in the United Kingdom and Sweden, and the focus was on services and software sales, particularly to financial companies. In 2006 AppliCon Solutions A/S and AppliCon Solutions Ltd. was set up and its focus has been the sale and development of smaller and standardised SAP solutions. The main objective of founding AppliCon in Sweden was to offer software solutions and advisory services to local banks and financial companies. A step in that direction was taken when AppliCon acquired Marquardt & Partners A/B in 2008, which specialised in software and advisory services for financial companies. The operation of AppliCon in Sweden was transferred into Marquardt & Partners A/B and the name of that company changed to Application Consulting Sweden AB. The name of the parent company, AppliCon in Sweden, was then changed to Application Consulting Sweden Holding AB. Today there are AppliCon companies in Iceland, Denmark and Sweden and a sales office in the United Kingdom.

In the end of 2003 Nýherji reached an agreement with IBM Nordic AB regarding the purchase of the consulting company IBM Consulting Services in Iceland. The name of the company was changed to ParX ehf. The company provided both domestic and foreign customers business consultancy. In the end of 2009, Nýherji sold the company ParX to PriceWaterhouseCoopers.

In March 2007 an agreement was reached on the purchase of all share capital in Linkur ehf., a dealer and distributor for Sony, Panasonic and other well-known brands. In September 2007 Linkur ehf. acquired the Sony Center in Kringlan Shopping Centre. On 1 November 2008 Linkur was merged with Sense ehf.

In May 2007, the Danish company Dansupport A/S was acquired. This company focuses on IT infrastructure and telecom solutions for smaller and medium-sized companies.

In 2008 Nýherji acquired TM Software hf. and all of its subsidiaries. The main subsidiaries are Skyggvir ehf. upplýsingaþjónusta, Origo ehf., Vigor ehf., eMR hugbúnaður ehf., TM Software ITP ehf. and an inactive company Theriak Medication Management ehf.<sup>4</sup>

In 2008, TM Software hf. and Eimskip hf. extended an agreement on their information and technology systems, and development of software for Eimskip hf. Following the extension of the agreement, TM Software hf. took over the operation of BITS UAB, Eimskip's IT department in Lithuania. BITS UAB has five employees.

A new business model was prepared and introduced for Nýherji's activities in Iceland, which was announced at the beginning of October 2008. The intention was to sharpen the focus and specialization of subsidiaries along with increasing the coordination and efficiency of the Group's operation. Nýherji hf. is the parent company of the following subsidiaries; Skyggvir ehf. upplýsingaþjónusta, Sense ehf., TM Software Origo ehf. (then Origo ehf.), Applicon Holding ehf., eMR hugbúnaður ehf., SimDex ehf., Klak ehf., Viðja viðskiptaumsjón ehf. and Vigor ehf. Nýherji hf. is also responsible for sales of computers, infrastructure product and other technical equipment. Each subsidiary specialises in a defined area of services, software or consultancy, with the goal of meeting client needs in that specialist field.

On 22 December 2008 the name of Origo ehf. was changed into TM Software Origo ehf.

On 2 January 2009 TM Software hf. sold part of its assets to Nýherji hf., including the subsidiaries Skyggvir ehf. upplýsingaþjónusta, TM Software Origo ehf., eMR hugbúnaður ehf., Vigor ehf., Viðja viðskiptaumsjón ehf., TM Software ITP ehf. (merged with Skyggvir ehf. upplýsingaþjónusta in May 2010) and Theriak Medication Management ehf. (merged with eMR hugbúnaður ehf. in May 2010).

On 28 August 2009 the name of TM Software hf. was changed to TM Software ehf. and on 5 February 2010 TM Software ehf. was renamed Roka ehf., which was declared bankrupt in March 2010.

Shares in Nýherji hf. have been traded on the Icelandic stock exchange since 30 October 1997 (Verðbréfaþing Íslands hf. at that time, now the NASDAQ OMX Iceland hf.). Before listing, the Shares were traded on the Icelandic open bidding market (Opni tilboðsmarkaðurinn) from 30 November 1995.

### **3.5 Information on holdings**

The table below show information relating to the undertakings in which the Company holds a proportion of the capital likely to have a significant effect on the assessment of its own assets and liabilities, financial position or profits and losses. The information in the table below is as of 31 December 2009.

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<sup>4</sup> The operation of Theriak Medication Management ehf was sold at year-end 2007.

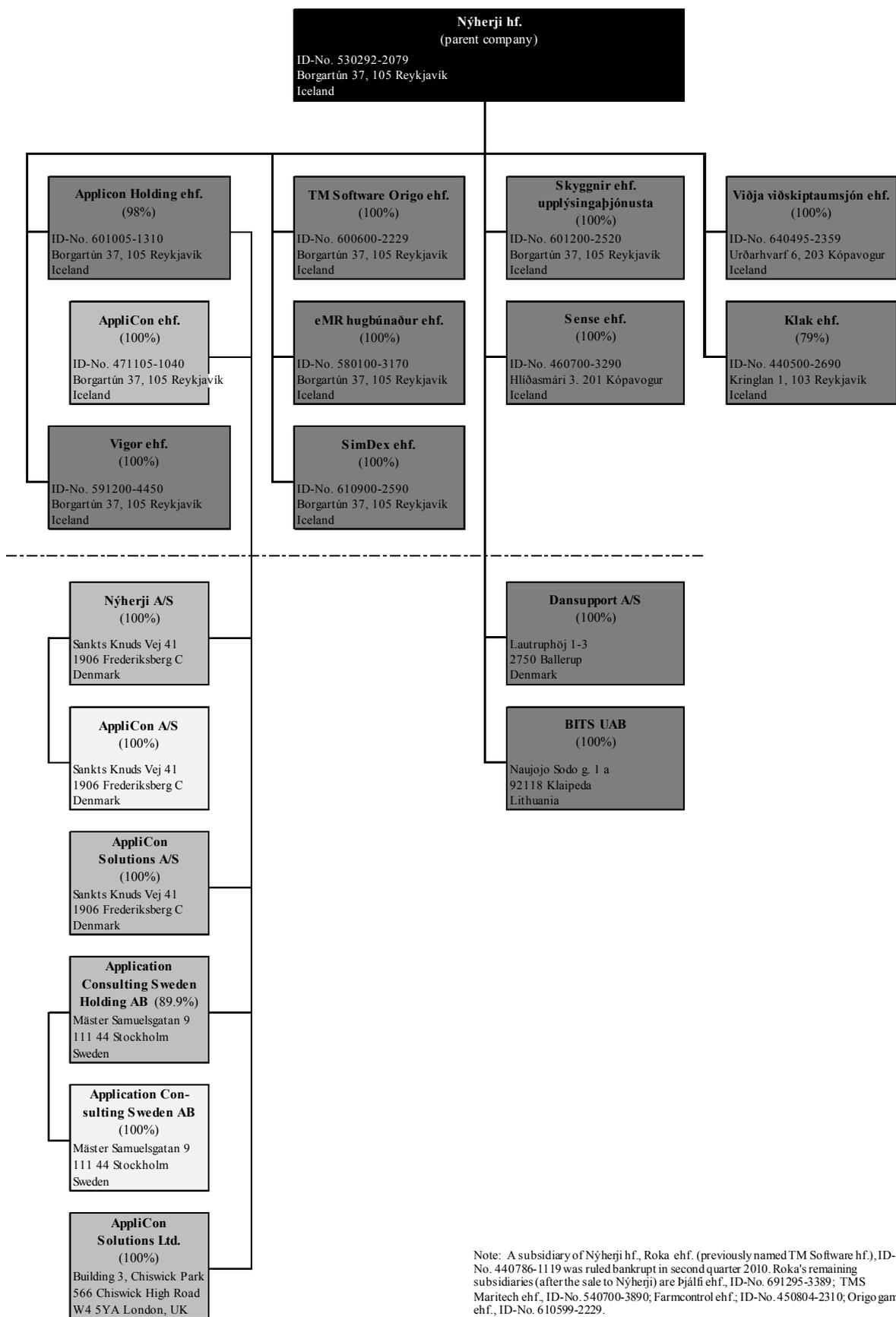
Legal name	Skyggfir ehf. upplýsinga- þjónusta	eMR hug- búnaður ehf.	Sense ehf.	AppliCon A/S	Dansupport A/S	Nýherji A/S <sup>5</sup>
Registered office	Borgartún 37 105 Reykjavík Iceland	Borgartún 37 105 Reykjavík Iceland	Hlíðasmári 3 201 Kópavogur Iceland	Sankts Knuds Vej 41, 1906 Fredriksberg C Denmark	Lautruphøj 1-3, 2750 Ballerup Denmark	Sankts Knuds Vej 41, 1906 Fredriksberg C Denmark
Field of activity	ICT products and related services	Software, related services and consultancy	ICT products and related services	Software, related services and consultancy	ICT products and related services	Holding for AppliCon A/S
Proportion of capital and voting power (if different) held	100%	100%	100%	100%	100%	100%
Amount of dividends received in 2009 respect of shares held	-	-	-	-	-	-
Amount of debts owed to and by the Issuer with regard to the undertaking	98.1	0.2	349.5	-	-	381.0
Issued capital	90.5	46.0	10.0	6.5	5.9	7.1
Reserves	121.0	190.4	49.8	334.3	48.6	668.3
Amount still to be paid up on shares held	-	-	-	-	-	-
(Loss) profit from ordinary activities after tax for 2009	(51.2)	27.4	77.1	11.5	(73.2)	(25.7)
Value at which the Issuer shows shares held in its accounts	1,146.7	364.7	139.2	1,876.4	128.1	675.4

\* All amounts in ISK million

### 3.6 Legal structure

Nýherji hf., the Issuer, is the parent company of the Group presented in this Share Registration Document. The legal structure of the Group, according to ownership, is as set out in the chart below. The Issuer's share in the ownership of its subsidiaries is 100% except for AppliCon Holding ehf. which is 98%, Application Consulting Sweden Holding AB which is 90% and Klak ehf. which is 79%. The Issuer also owns 42.1% in Hópvinnukerfi ehf. and 23.3% in AGR-Aðgerðargreining ehf. In all cases the voting rights in each company corresponds to its share of the ownership of the share capital as outlined in the table.

<sup>5</sup> The reason Nýherji A/S realised a loss in 2009 while its subsidiary AppliCon A/S realised a profit is that Nýherji A/S bears the interest of the loan it obtained when it acquired AppliCon A/S.



## 4. BUSINESS DESCRIPTION

The role of Nýherji is to create value for its customers through the expertise of its employees in information technology, business administration and meeting the customers' needs. Nýherji offers premium IT services, high quality computer and office equipment and software, as well as technological and business support.

In recent years Nýherji's operations have undergone considerable change as a result of acquisitive and organic growth in the company's core business areas, as well as due to the recent economic downturn. On 30 September 2010, the parent company had 44 full-time equivalent positions and the Group had 540 full-time equivalent positions.

The Company's operations were restricted to Iceland until 2005. At that point the Company expanded its operations into selected northern European markets and established itself in Denmark and Sweden. Nýherji has acquired three companies abroad: AppliCon A/S and Dansupport A/S in Denmark and Marquardt & Partners A/B in Sweden, which was merged with AppliCon Sweden. The Company has also established new subsidiaries by setting up AppliCon Sweden in Stockholm at the beginning of 2007, AppliCon Solutions Ltd. in London at the end of 2006 and the development company AppliCon Solutions A/S in Copenhagen in mid-2007.

Nýherji's business segments are two: Products and services and Software and consultancy. The majority of the Company's business is conducted via subsidiaries, both in Iceland and abroad. The list below shows how income generating companies of the Group are categorised under each segment.

### Products and services

- Nýherji hf. is the parent company and is responsible for sales and product development of computer and technical equipment.
- Sense ehf. specialises in digital solutions, such as audio and video equipment.
- Skyggvir ehf. upplýsingaþjónusta specialises in design, installation, maintenance and operation of IT solutions. It also specialises in implementation of ICT solutions and in hosting and managed services where Skyggvir takes responsibility for operating the customer's IT environment.
- Dansupport A/S specialises in IT-infrastructure and IP based Unified Communications Solutions for small and medium-sized companies in the Danish market.

### Software and consultancy

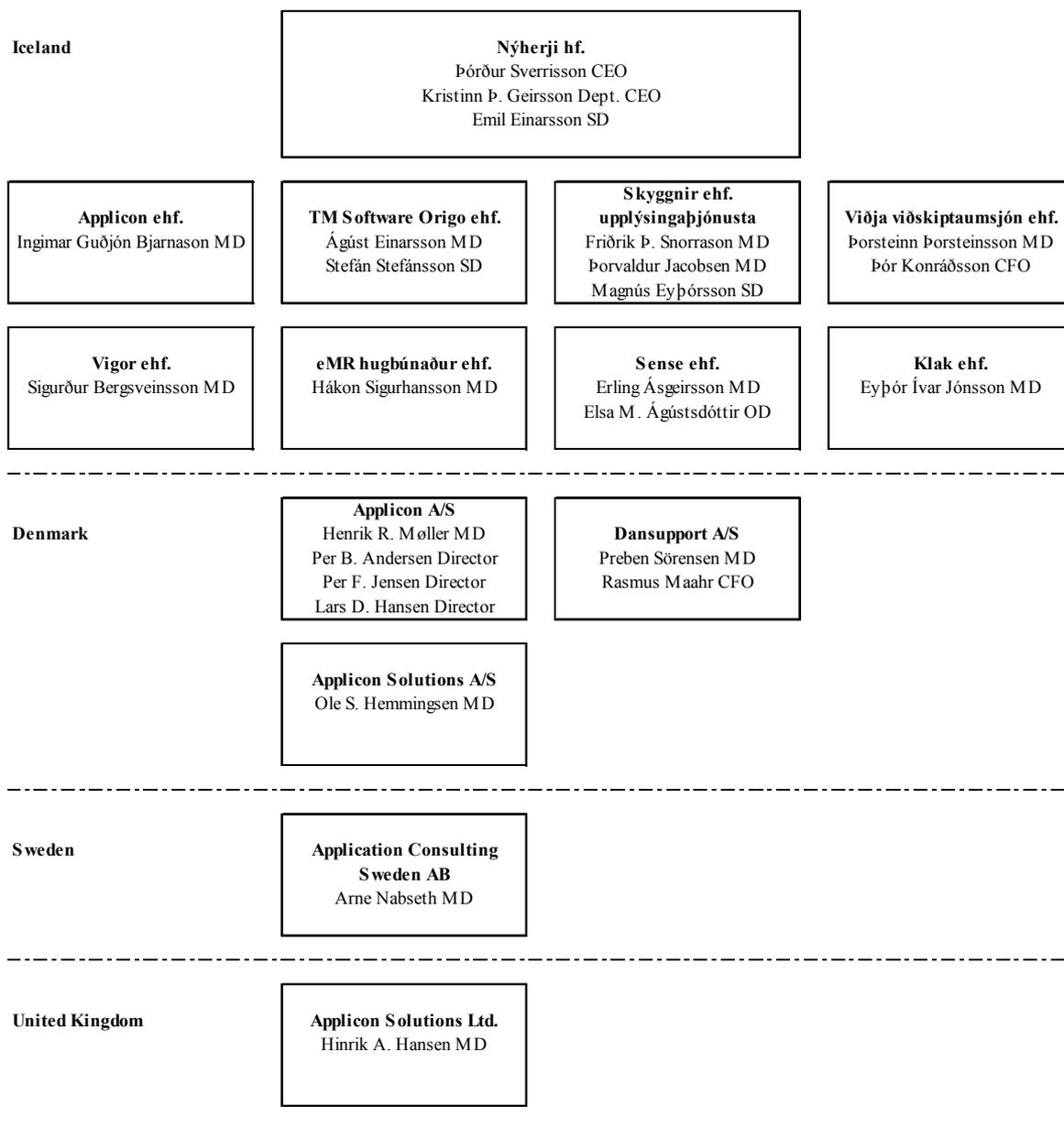
- AppliCon Holding ehf. is the parent company of companies focusing on SAP business software sector, financial solutions and specialised sector-based solutions.
  - AppliCon ehf. in Iceland
  - AppliCon A/S in Denmark
  - AppliCon Solutions A/S in Denmark
  - Application Consulting Sweden A/B (AppliCon Sweden)
  - AppliCon Solutions Ltd., in UK
- TM Software Origo ehf. focuses on more extensive software development and systems integration.
- Vigor ehf. offers ERP solutions and integrated business software for the energy sector.
- eMR hugbúnaður ehf. develops software solutions for the healthcare sector in Iceland.
- Viðja viðskiptaumsjón ehf. handles centralised support services and operations for Nýherji hf. and its Icelandic subsidiaries.
- Klak ehf. is a privately run innovation center, which focuses on assisting entrepreneurs in founding companies and enabling start-up companies to grow and flourish.

The segment Products and services includes reselling, distribution and the servicing of computer systems, IT infrastructure, telephone systems, printing solutions, audio and visual solutions and similar equipment. This area of business also includes reselling licences of infrastructure software necessary for running businesses. The Group provides its customers with a diverse range of advisory services and other services relating to the design, installation and maintenance of such solutions. A service agreement lasting several years is often made with customers on the maintenance of the equipment they have purchased. The advisory services may

also involve Nýherji taking over the responsibility for centralized computer systems for its customers or running the systems which are located at the customers' work place. This kind of business support is an increasingly important part of the Group's business.

The segment Software and consultancy includes the sale, advice, adaptation, implementation, testing and training related to business software for third parties. Software solutions have been developed for specific target groups such as financial companies, insurance companies, fisheries companies, local authorities, transportation companies and healthcare institutions. This area of business also includes the development and sale of customized software solutions.

Following is a diagram and a discussion of the main income-generating business units in the Group, showing the country in which they operate and the name of the relevant directors.



## **4.1 Products and services**

### **4.1.1 The parent company**

Nýherji hf. is the parent company of the Group. It also provides technological consultancy and sells equipment and technical solutions from trusted manufacturers to its corporate customers. Nýherji's product lines include computers and technological equipment for companies and individuals, including network servers, telephone systems, computers, software, printing solutions, and operational supplies offered through various subsidiaries. On 30 September 2010, the parent company had 44 full-time equivalent positions.

#### **Nýherji and IBM: a strong partnership**

Nýherji bases its operations to a large extent on consultancy and sales of computers and other infrastructure hardware and software, which is an important link in the operation of information technology systems in Icelandic firms. Product offerings of infrastructure hardware and equipment include IBM BladeCenter, IBM System xSeries servers, IBM Power Systems, IBM System z mainframes, IBM System Storage, and reserve power supplies, cooling equipment, and storage racks from APC.

IBM xSeries has a strong market presence in Iceland. Nýherji's IT consultants have in-depth experience and knowledge of xSeries systems, as they have installed and maintained many of the nation's network servers.

Power System is a server line from IBM that combines iSeries and pSeries computers and can run a wide range of software. Nýherji offers a broad selection of solutions and services for IBM Power Systems.

IBM's System z mainframes feature a large performance range and high up-time, and are used for online and batch processing, as well as for back end processing and services for Icelandic banks.

IBM System Storage is the brand name for a range of data storage solutions from IBM, including disk solutions, back-up solutions, and IBM Storage software (Tivoli).

IBM Software solutions consist of IBM Information Management, Lotus, Tivoli, Rational and Websphere software. Nýherji has a premium partner status in those software brands.

Nýherji also offers reserve power supplies, cooling equipment and server racks from APC, and comprehensive solutions for computer and systems spaces. Nýherji experts offer integration of design, equipment, and computer space based on users' needs, and they have years of experience in this area.

#### **Increased product offerings for individual users**

Among other Nýherji partners are computer manufacturers Lenovo and Canon with printing and office solutions, as well as Avaya, Plantronics and Polycom, which produce telephone and distance conference equipment.

For many years, personal computers have been a major part of Nýherji's product line. Lenovo took over manufacture and sale of products previously sold under the brand IBM ThinkPad. Nýherji has sold ThinkPad computers since the Company was founded in 1992. Today Nýherji sells Lenovo computers, especially ThinkPad laptops, primarily to the business market. Nýherji has growing range of solutions from Lenovo; introducing laptops for students and household users.

Through partnership with Canon, Nýherji offers services relating to printing solutions for businesses, organisations and individuals. This enables Nýherji to offer its customers complete printing solutions, including photo copiers, fax machines, printers and printing machines.

#### **E-commerce a growing aspect of sales**

A growing element in the Company's sales activities is the Nýherji e-commerce, [www.netverslun.is](http://www.netverslun.is), which offers quality products for corporate and individual customers, as well as equipment from Nýherji's subsidiary Sense ehf. Using the e-commerce is convenient and beneficial for customers, as [www.netverslun.is](http://www.netverslun.is) meets the statutory requirements for sale of electronic equipment, according to an EU

investigation titled “Sweep on electric goods”<sup>6</sup> conducted in 2010 under the auspices of Iceland’s Consumer Agency.<sup>7</sup>

### **Challenging times**

The operating environment of Icelandic IT companies has undergone radical change, as described in chapter “1.1 Financial crisis”. Competition has increased due to shrinking domestic demand after October 2008, the ISK is weak and financing costs for new managed solutions agreements have risen. Even though market conditions have been demanding Nýherji has managed to increase sale of hardware and other products in ISK between 2009 and 2010.

Nýherji’s sales and marketing efforts have reflected the changed conditions in Icelandic society. The importance of working closely with customers is continually increasing. Nýherji’s close collaboration with its customers and promotion work has resulted in an increased demand for various solutions, such as IBM servers and data storage solutions. Moreover, the sale of Lenovo laptop computers has increased on the corporate and consumer market since 2009.

The outlook for the the sales units of the parent company is expected to improve over the next quarters, provided that there is no stagnation or setbacks in the development of the domestic economy.

#### **4.1.2 Skyggfir ehf. upplýsingaþjónusta**

Skyggfir is a technical service and managed services company within the Group. The company’s technical services include design, installation and maintenance of IT solutions. It also specialises in implementation of ICT solutions and in hosting and managed services where Skyggfir takes responsibility for operating the customer’s IT environment.

TM Software hf.’s managed services and Nýherji’s technological department merged and began operating under the Skyggfir name at the beginning of 2009, creating the largest technical and managed services company in Iceland<sup>8</sup>. As the largest company in the Group, Skyggfir had 160 full-time equivalent positions 30 September 2010.

Skyggfir specialises in solutions that enhance reliability, reduce overall expense, and improve the properties of information systems. It also provides network and communications solutions that boost employee productivity and improve corporate service levels. The revenue stream of Skyggfir is threefold. Around two-third of its revenue is based on multi-year service contract and around 20% is project based service revenue while the remainder comes from sales of hardware. The project and product revenue fluctuate mostly in line with the state of the economy while the contract revenues fluctuate less although they can be sensitive to Skyggfir’s ability to renew contracts with its largest customers.

The company’s uniqueness as a technical and managed service provider is embodied in its broad range of services, in-depth expertise, and certified service processes. The company has received ISO 27001 information security certification, confirmed by the British Standard Institute (BSI) for the year 2009. Skyggfir received its first confirmed certification in the field in 2004 and is appraised annually by BSI representatives. To increase quality of service the company has invested significantly in ITIL which is a library of best practice procedures for delivering IT services.

Many of Iceland’s largest firms and institutions trust Skyggfir for design, maintenance and operation of their IT systems. The company manages Icelandair’s entire information systems, as well as operating all network and IT systems for the shipping company Eimskip.

A number of Icelandic municipalities are also customers of Skyggfir, including Seltjarnarnes, Mosfellsbær, Fljótsdalshérað, and Fjarðabyggð. Skyggfir also operates a variety of specialised systems for companies and institutions. It operates the telephone system for the Landspítali – University Hospital, which is the largest

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<sup>6</sup> See press release on „<http://www.neytendastofa.is/Pages/718?NewsID=1088>

<sup>7</sup> The Consumer Agency’s investigation covered ten Icelandic websites which offer electronic goods. The websites were checked for compliance with articles of Act No. 57/2005, on the surveillance of business practices and marketing, Act No. 30/2002 on electronic commerce and other electronic services and Act No. 46/2000 on door-to-door sales and distance contracts, all of which are based on EU-wide consumer rules.

<sup>8</sup> According to management estimation and Frjáls Verslun issue 8-9 2010 (300 largest)

phone system in the country, serving both the hospital's 4,000 employees and the thousands of people who make use of the hospital services. Approximately 10% of Iceland's workforce is employed by firms and institutions that rely on Skyggnir for all of their computer operations.

### **Demanding conditions**

The market conditions for managed and professional service continued to be challenging in 2010. Despite this, the operations of Skyggnir improved during each of the first three quarters of 2010. During the first quarter of 2010 Skyggnir implemented a new organizational structure, which enabled it to increase the quality of service while streamlining its operations and reducing costs. Today's organization is based on departments that consist of groups of highly related services both technical and professional services. All compatible knowledge is contained within one department making each of them very independent in its delivery of services. As a result of this change the number of fulltime employees was reduced by 10%.

In 2009, imports of IT equipment contracted by nearly 50% due to the depreciation of the ISK. Following the sharp deterioration in market conditions throughout 2009, the markets seem to have stabilized at the end of the first quarter 2010. This contraction in sales of hardware had a direct effect on Skyggnir's design and installation services which continued to be subdued throughout the first and the second quarter of 2010.

Skyggnir signed a new three-year contract with Icelandair Group in the second quarter 2010. The contract is one of the largest outsourcing contracts in Skyggnir's sector signed in Iceland but the agreement covers the Icelandair Group hf. and all its subsidiaries including Icelandair, Icelandair Cargo, IGS and Fjárnvakur but the group employs around 2,500 employees.

Skyggnir signed an agreement with the State Procurement Office to install a computer solution that would enable electronic counting of ballots in the elections for the Constitutional Assembly. This was the first time in Iceland's history that the counting of ballot votes was electronic, but with sophisticated scanning technology and a software solution a 99.99% accuracy could be assured.

Development in Skyggnir's operations centred on the sale of solutions providing customers with clear opportunities for streamlining, such as comprehensive operation of printing equipment, server virtualisation infrastructure, and system utilities. Many mid-sized companies have increasingly chosen to outsource their computer operations, which in many instances can help firms and institutions to achieve significant cost-efficiencies. Outsourcing can also enhance the quality and security of service and add flexibility to operations. Lack of access to financing and high cost of financing has though hindered the management from fully capitalising on these growth opportunities. New managed and outsourcing deals can demand significant investment in hardware and software. Access to financing has though improved following the financial restructuring of the Group, which was announced 29 September 2010. This has enabled Skyggnir to sign a number of new agreements for managed printing services.

Skyggnir has developed a range of solutions for server virtualisation infrastructure, which enable customers to operate their IT systems more efficiently and easily, at lower cost. For years Skyggnir has collaborated closely with VMware, the global leader in virtualisation.<sup>9</sup> Skyggnir is Iceland's only certified VMware Consulting Partner. As a result, if customers in Iceland experience problems, VMware seeks Skyggnir's assistance in resolving them. The company also foresees increased potential in its managed printing services, identity and access management services, application service provision and network outsourcing services.

The outlook for 2011 is that the operations of the company will continue to perform at a similar level as in 2010. Estimates expect income to start increasing again later in 2011 and for returns to grow slowly but surely. The most uncertain item in the company's operating budget is the increase in labour costs, since current general wage settlements will be expiring next year.

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<sup>9</sup> <http://www.vmware.com/company/>;

*Magic Quadrant for x86 Server Virtualization Infrastructure, page 2, Figure 1.*

<http://www.pdfhost.com/view/aHR0cDovL3d3dy52bXdhcmUuY29tL2ZpbGVzL3BkZi9jbG91ZC9HYXJ0bmVyaVZNd2FyZS1NYWd pYy1RdWFKcmFudC5wZGY=>

#### **4.1.3 Sense ehf.**

Sense ehf. offers digital solutions for audio and video equipment. The company operates in both the corporate and consumer markets, dividing its activities into three main divisions: Sense Solutions, Sense Distribution, and Sense Retail. On 30 September 2010, the company had 29 full-time equivalent positions.

Sense specialises in consultancy, design, integration, and distribution of digital solutions and equipment, through the operation of a strong service department, wholesale distribution, and professional retail sales. The company aims to be the first choice of firms and individuals wishing to purchase digital equipment and solutions. The company also operates an event management rental business which services many of the biggest events and conferences held in Iceland.

Sense operates the retail outlets Sense Center and Sony Center in the Kringlan shopping mall as well as having dedicated resellers all over Iceland making Sense one of Iceland's largest distributors of consumer electronics.

Sense has taken on many large corporate audio and video projects in Iceland over the recent years. One of Sense's largest corporate projects was the installation of audio and visual solutions for Reykjavik University's new building in Nauthólsvík. Sense has also provided technicians on projects abroad on a range of jobs related to audio and graphic solutions.

The knowledge and experience of the Sense employees together with a strong relationship with leading manufacturers of electronic products, e.g. Canon, Bose, Sony, Crestron Electronics, NEC and many others create the foundation for the future growth of Sense, both in the domestic market as well as abroad.

The status of audio/visual projects for companies and institutions has been good in 2010 and a similar performance is expected next year. Demand for consumer products from, for example, Canon and Sony, was good in 2010 and the demand is forecasted to grow further next year.

#### **4.1.4 Dansupport A/S**

Dansupport was founded in 1987 and was acquired by Nýherji in 2007. On 30 September 2010, the company had 31 full-time equivalent positions. Dansupport's main office is in Odense, with sales offices in Kolding and Copenhagen. It has gained a foothold in the Danish market, particularly in Fyn and southern Jutland, where it has operated for more than 20 years. Today Dansupport specialises in IT-infrastructure and IP based Unified Communications Solutions for small and medium-sized companies in the Danish market.

Dansupport delivers IT optimisation solutions focusing on companies' IT infrastructure including servers, network, desktops and other related technologies. In addition Dansupport offers to host the solutions either at the customer's premises or at Dansupports own hosting centre. In addition Dansupport also provides four different IP based unified communications solutions: Voice, Mobility, Messaging and Conferencing.

Dansupport has through many years of experience within their products and markets developed and retained very flexible and competent resources that support the Company's distinctive competences and ability to deliver high quality solutions and services.

Dansupport has strengthened its position in the Copenhagen area during 2010, by winning new large implementation and maintenance contracts in the Utility sector.

Dansupport has a strong customer base with more than 400 active customers. Its main partners are IBM, Avaya, Cisco, Siemens, and Microsoft.

The IT sector in Denmark underwent a sharp contraction last year, and Dansupport was forced to respond by cutting back on staff.

Dansupport has seen a turnaround in its operations in 2010 after losses in 2009. Dansupport has endeavoured to improve its position through cost-cutting measures and increasingly emphasized services for utilities and comparable medium-sized companies.

## 4.2 Software and consultancy

### 4.2.1 TM Software Origo ehf.

TM Software Origo ehf. is a software company specialising in web solutions, web portals, integration solutions, business intelligence, and customer relationship management (CRM). On 30 September 2010, the company had 46 fulltime equivalent positions.

TM Software Origo bases its operations on two main areas of activity: value-added solutions for open-source software such as Java, Delphi, and IBM, on the one hand, and on Microsoft solutions such as .NET, SharePoint and CRM, on the other. The company possesses a wide range of expertise in software solutions and employs a large group of Microsoft and Java experts. Following organisational changes of Nýherji in October 2008, the development of solutions based on Microsoft and IBM Software was transferred to TM Software Origo. This change further strengthened TM Software Origo's Microsoft and IBM knowledge.

The changes in the Icelandic market have called for new focuses in TM Software Origo's operations. The contraction in project flow among the company's largest customers, including banks and financial companies, was more pronounced than projected. As a result, the company sought ways to offer its solutions abroad and to seek projects with foreign collaborators.

The increase in foreign projects was concentrated in group, web, and integration solutions. Among the company's foreign customers is the association of physiotherapists in Denmark. Projects for the association were carried out in co-operation with the Danish software company INOPI. Also worth mentioning are projects for Nokia-Siemens Networks and the software company VYRE in London.

The company carried out an extensive project with the United Nations (UN) and Microsoft concerning the establishment of a Microsoft SharePoint web portal for development aid and rescue operations in emergency areas. The solution was developed for the UN Office for the Coordination of Humanitarian Affairs (OCHA). The first project in connection with the solution, called OneResponse, was for the Mexican healthcare authorities in response to the swine flu outbreak in early 2009. Microsoft in the US gave TM Software Origo a special award for its work for the UN.<sup>10</sup>

Among other projects is a web solution for the Swedish telecom firm TeliaSonera. The solution enables TeliaSonera customers to find instructions and answers related to the company's service. It also includes a process for service representatives to handle queries from foreign customers. It involves time tagging software Tempo that has been developed as a supplement to the JIRA requisitioning and service system designed by Atlassian in Australia, a TM Software Origo partner. In 2010 TM Software Origo sold Tempo to dozens of countries including many large companies and institutions, such as the London Stock Exchange and Deutsche Bank. The New York stock exchange and Intel have also downloaded trial versions of the system.

TM Software Origo has extensive experience in website design and development and the set-up of web administration systems, and has taken on a number of such projects for domestic firms. Among them are the websites of Síminn, Icelandair, and Íslandspóstur, all of which won awards at the IceWeb conference held by SVEF, the Icelandic Web Association, in early 2009.<sup>11</sup>

Although the company has placed growing emphasis on the sale of solutions abroad, the majority of its revenues are generated in Iceland. Among domestic projects was development in SharePoint for the Icelandic Association of Search and Rescue (ICESAR) and the National Commissioner of the Icelandic Police, and web and integration solutions for Icelandair. The company also continued developing Alma, an information system for Tryggingarmiðstöðin hf.

TM Software Origo set up the websites for the *Inspired by Iceland* promotional and marketing campaign in the summer of 2010, which was designed to focus the spotlight on Iceland as a destination for foreign tourists. The project was very successful and the Iceland Convention and Incentive Bureau (RSÍ) won the

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<sup>10</sup> [http://www.tmssoftware.is/tm-software/frettir/frettir/item9829/Microsoft\\_i\\_Bandarikjunum\\_heidrar\\_TM\\_Software/](http://www.tmssoftware.is/tm-software/frettir/frettir/item9829/Microsoft_i_Bandarikjunum_heidrar_TM_Software/)

<sup>11</sup> <http://svef.is/islensku-vefverdlaunin/verdlaunavefir/>

ICCA Best Marketing Award<sup>12</sup> in 2010. The ICCA issued the award in recognition of RSÍ's member companies' response to the expected drop in tourism following the volcanic eruption of Eyjafjallajökull.

There was a turnaround in TM Software Origo's operations in 2010. The company has placed an emphasis on streamlining costs, adjusted itself to the new market conditions, and taken on projects overseas. The outlook for 2011 is satisfactory, since TM Software Origo can expect to see slow growth in projects related to software solutions.

#### **4.2.2 eMR hugbúnaður ehf.**

eMR hugbúnaður ehf. is a developer of software solutions for the healthcare sector in Iceland. EMR's solutions are used daily by thousands of employees at all of the country's major healthcare centres, medical specialists, pharmacies, and a number of other entities. On 30 September 2010, the company had 21 full-time equivalent positions.

EMR products are: Saga Electronic Patient Journal system, Askja – statistics and reporting, Hekla healthcare network, Electronic prescription portal, Medicor prescriptions handling system for pharmacies and Pharmacy pharmaceuticals system for hospitals.

EMR's main projects during the year 2009 were for the Ministry of Health and the National – University Hospital, where the company worked on number of projects to increase efficiency by using Hekla healthcare network and the development of new units for the Saga electronic patient journal system. In 2009, EMR and the Ministry of Health signed a contract for the installation and launch of new version of the Saga system in all of the nation's healthcare institutions. The new version of Saga included a number of new units that were developed in cooperation with Landspítali – University Hospital.

The use of electronic prescriptions has grown rapidly, and healthcare employees and patients have been very satisfied with the improved, streamlined service accompanying electronic transmission of prescriptions. At the end 2009, an agreement was concluded, enabling Saga users to send applications electronically from Saga to the Icelandic health insurance (Sjúkratryggingar Íslands) via the Hekla healthcare network.

Software solution sales were satisfactory for EMR in 2010. Saga Electronic Patient Journal system was developed in collaboration with Landspítali – University Hospital and Ministry of Health, in addition to projects connected to the digital transmission of data through the Hekla healthcare network, since the electronic transmission of health data can substantially reduce costs for entities operating within the health sector and improve the quality of service to patients.

#### **4.2.3 Vigor ehf.**

Vigor ehf. is a software company, established in 2001, that develops and sells comprehensive business software and provides related specialised solutions for utility companies, municipalities, and other firms. The company had 15 full-time equivalent positions on 30 September 2010.

Among the company's solutions is Vigor Utilities, a specialised information system for utility companies' invoicing and accounting. Some 70% of Icelanders receive invoices from utility companies that use Vigor Orka. Vigor also offers ASP (application service provider) in collaboration with Skyggnir ehf. upplýsingaþjónusta.

Another solution is Vigor Business Solution an ERP system (Enterprise Resource Planning), which is suitable for companies of all sizes across multiple industry sectors.

Vigor provides an ASP service (Application Service Provider) using IBM Power System with IBM System i integrated operating environment as a server.

In 2010, Vigor worked on an extensive project involving the development of a new payment and collections system for TM Insurance, as well as a variety of software projects for Reykjavík Energy, Orkubú Vestfjarða, Borgun, and others. The operating results in the 10 months of the year 2010 is satisfactory.

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<sup>12</sup><http://www.iccaworld.com/npps/story.cfm?nppage=2309>

#### **4.2.4 Viðja viðskiptaumsjón ehf.**

Viðja viðskiptaumsjón ehf. commenced operation in early 2009 and handles centralised support services and operations for Nýherji hf. and its Icelandic subsidiaries, with the aim of enhancing operational efficiency among the Nýherji companies. On 30 September 2010, the company had 37 full-time equivalent positions.

Viðja's operations can be divided into three categories: business process outsourcing, managed services, and general operations.

Business process outsourcing is the name of the service provided by Viðja in the fields of finance, purchasing, human resources, and payroll accounting. The service is based on defined, performance-based processes, procedures, and SAP systems solutions that are co-ordinated within the Group.

The managed services covers the operation of units that provide defined services such as telephone answering and reception, cafeteria services, and product distribution centre operation. Managed services are run according to defined service criteria, with efficiency as a guiding principle.

General operations involve the operation of housing, service vehicles, technical equipment, outsourced services, and other aspects of business, with the aim of reducing financial obligations and expenditures.

Viðja's finance division handles financial and accounting services for Nýherji's domestic companies, in addition to five foreign firms in the Group. Among its tasks are payment of invoices, accounting, collections, and settlement. Viðja's purchasing division handles procurement and transport for Nýherji, Sense, and Skyggvir, and communications with suppliers. These companies' products are hosted at the Viðja distribution centre at Köllunarklettsvegur in Reykjavík.

#### **4.2.5 Klak ehf.**

Klak ehf. - Innovation Centre is a growth company owned jointly by Nýherji and Reykjavík University (RU) and was founded in the year 2000. As a privately operated firm, it does not receive government support and is therefore one of only a handful of privately run innovation centres in Europe. It focuses on assisting entrepreneurs in founding companies and enabling start-up companies to grow and flourish. Klak operates Business Accelerator, a course of study enabling firms and individuals to obtain a diploma in innovation. On 30 September 2010 the company had one full-time equivalent position.

Business Accelerator - the fast track for new companies opened its doors in the fall of 2008 and graduated its first diploma recipients in 2009. About 40 firms participated in the project in 2009, taking part in over 80 courses for entrepreneurs. The company also operates Sprotapíng Íslands, whose main task is to promote investment in start-ups. In recent years, Sprotapíng has held 10 conferences under the title Seed Forum Iceland, in collaboration with the international organisation Seed Forum International.

#### **4.2.6 AppliCon ehf.**

AppliCon ehf. was established in 2005 and specialises in consultancy, service, and development of business solutions for SAP and Microsoft software. The company also develops solutions for entities in specific business sectors, such as financial companies, municipalities, and fisheries, as well as offering payroll and human resources software. AppliCon ehf.'s role is to support its clients' activities with standard yet flexible business software, professional consultancy, and top-quality service. AppliCon ehf. had 37 full-time equivalent positions at 30 September 2010.

The company's operations changed radically in 2009. For years, a large share of its service revenues had been based on services rendered to Icelandic banking and financial firms, but the sudden contraction in the banking sector in the fall of 2008 changed the picture dramatically. After a long period of steady growth, AppliCon ehf. was faced with shrinking demand, which was met with restructuring and cost-cutting efforts.

New policy goals required clarification of the company's business strategy and objectives. AppliCon ehf. placed growing emphasis on cultivating its trusted domestic customers and succeeded in efforts of systematic marketing abroad as well.

Results for the first 9 months of 2010 AppliCon ehf. are in accordance with management expectations. Utilization of consultants is good and sales of own software is strong. Results in 2010 are based on a healthy

mix of different customers and projects, meaning that there are no major risk factors in the operation. AppliCon ehf. has retained strong knowledge in SAP banking by working for SAP on developing the latest banking solution of SAP. This expertise will prove valuable as the global demand for SAP banking is picking up rapidly.

#### **4.2.7 AppliCon A/S**

AppliCon A/S in Denmark, the first AppliCon company, was founded in 1998 and acquired by Nýherji in 2005. The aim of the acquisition was to achieve synergy with a company which had extensive experience and to create a Nordic firm for SAP business solutions.

AppliCon A/S focuses on SAP consultancy for a variety of sectors. The company also has extensive experience of development and implementation of SAP solutions and related products in Denmark. The company's headquarters are in Frederiksberg in Copenhagen, but it also has offices in Skanderborg in Jutland. On 30 September 2010, the company had 70 full-time equivalent positions.

AppliCon A/S focuses on service and consultancy for a variety of sectors, as well as long-term collaboration, which is especially important in a very competitive market. Furthermore, AppliCon A/S participates in tendering long-term projects in order to attract new customers among larger companies with the aim of strengthening sales efforts and promoting awareness of the company.

AppliCon A/S was named the best SAP collaborator in Denmark in 2010 for its sales and marketing efforts and its knowledge of SAP solutions in 2008 and 2009.<sup>13</sup> The choice was made from among all of SAP's collaborators in Denmark. AppliCon A/S and SAP work closely on marketing campaigns, projects for customers, and licence sales.

There have been considerable difficulties in the Danish business environment, which emerged in a general contraction among companies in the latter half 2009 and postponement of projects. When business slowed down the company began stepping up SAP-related product development in preparation for the future, with the aim of examining the market's needs for SAP solutions. New Business Process Management and Business Analytics services were launched. Through such projects, new products have been developed, such as Period End Closing Tool for accounting period settlement, MOMS2010 for corporate VAT settlement, Role Management Service for set-up and maintenance of employee access to information systems, and a number of other pre-defined products and services.

AppliCon A/S improved its project status by signing an agreement with Danish State Railways (DSB) regarding the SAP consultancy service. AppliCon A/S has also reached an agreement to install a SAP customer system for hospitals and other health institutions in the Hovedstaden Region in Copenhagen and North Sealand. AppliCon A/S is a collaborating partner as subcontractor of Siemens IT Solutions on this project. This is the largest contract AppliCon A/S has ever signed. The project has proceeded more slowly than anticipated which has affected AppliCon A/S's earnings in 2010.

#### **4.2.8 AppliCon Solutions A/S**

AppliCon Solutions A/S in Denmark was established in 2006 to concentrate on the development and sales of smaller and standardised SAP solutions. AppliCon Solutions A/S has its offices in Frederiksberg. On 30 September 2010 there were two full-time equivalent positions.

The company placed increased emphasis on foreign sales – for example, in the US, where significant sales milestones were reached with customers such as Mercedes-Benz Inc. and GE Intelligent Solutions. In the European region AppliCon Solutions A/S has delivered solutions to companies like Xerox and TeliaSonera.

In 2010, AppliCon Solutions A/S has proven that it is on the right path of becoming a strong player in the international SAP software market. On 31 October 2010, the company had finalized 15 new customers in 2010 and has with success moved from selling software to medium sized SAP customers to large enterprise customers. AppliCon Solutions A/S now has customers in 12 different countries and expects to double the

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<sup>13</sup> SAP quality gold award til GRIF-projektet - <http://www.applicon.dk/servlet/file/store747/item39319/version1/SAP%20Quality%20Award%20GOLD%20GRIF.pdf>

number of reference customers from 20 to 40 in 2010. Two new versions of the SAP solutions Authorization Process Manager have been executed and the tool was recertified by SAP for the third time.

The strategy for 2011 will be a continuing focus on increasing the customer reference pool in order to strengthening the market position and awareness of AppliCon Solutions A/S and the Authorization Process Manager.

#### **4.2.9 Application Consulting Sweden AB (AppliCon Sweden)**

AppliCon Sweden was founded in 2006 and puts primary emphasis on selling solutions and services to banks and financial companies in the Nordic region. On 30 September 2010, the company had 48 full-time equivalent positions.

At the beginning of 2008, AppliCon Sweden acquired Marquardt & Partners A/B in Stockholm. The purchase was in accordance with the policy of expanding AppliCon's service in the field of software solutions for financial companies in Northern Europe.

AppliCon Sweden collaborated successfully with many of the country's leading financial firms, including Handelsbanken and De Lage Landen, which is owned by Rabo Bank. At Nordea, AppliCon Sweden consultants participated in implementing solutions from Calypso, as well as other related projects. Swedbank is a new and growing customer as well. The Swedish car manufacturer Volvo implemented a SAP real estate administration system with AppliCon Sweden's assistance. The project involves a solution for Volvo Real Estate, which is part of the Volvo enterprise. In addition, AppliCon Sweden handled maintenance of solutions and systems that it had developed for the Swedish financial firm SEB.

The company also continued its projects for Alandsbanken, which took over a large part of Kaupping Bank's operations in Sweden in 2009. With that transfer, six employees came from Kaupthing Sweden to AppliCon Sweden and are now an important part of the experienced group of the company's consultants for financial firms. Furthermore, new projects were negotiated with current customers such as Svensk Exportkredit, Folksam, and Brummer & Partners.

AppliCon Sweden has cultivated the development of its own solutions, including software called PeTra, which ensures procedural security and monitoring of securities transactions carried out by employees of banks and government institutions. The system already has over 10,000 users and is in use in Sweden and Denmark by several of the Nordic countries' largest banks, including Nordea, SEB, Öhman, and Carnegie. It is offered in other locations as well, including Iceland.

The project status and utilisation of consultants has been good in 2010 and the project pipeline for 2011 is promising.

#### **4.2.10 AppliCon Solutions Limited**

AppliCon Solutions Ltd. operates a sales office in the UK, whose main role is to bolster the companies' co-operation on international projects, both within their home markets and outside them, not least in view of the contraction in the home markets in Iceland, Denmark and Sweden. In 2009, projects outside the companies' home markets were quite successful, and a number of consultants were involved. These include participation in the implementation of the SAP loan system for ING in Holland, in collaboration with IBM; and participation in the implementation for the SAP deposit system for Nationwide in England, in collaboration with SAP and with the participation of consultants from all of the AppliCon companies. In connection with the Nationwide project, AppliCon Solutions Ltd. concluded an agreement with SAP in Germany concerning participation in the development of the newest generation of SAP commercial banking solutions.

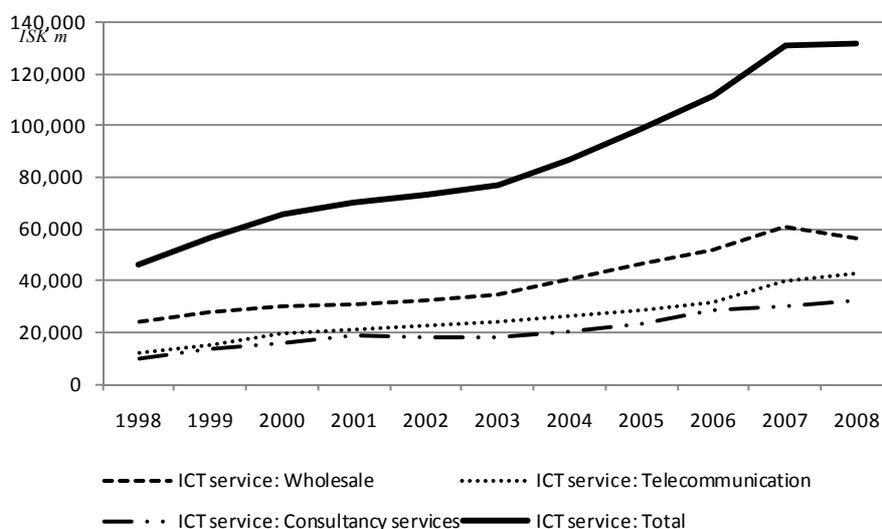
AppliCon Solutions Ltd. has implemented new procedures designed to maximise the utilisation of consultants on joint projects outside home markets. This collaboration extends to other firms within the Group.

### 4.3 The Icelandic IT market

The Company, in addition to its Icelandic operation, has operations in Denmark, Sweden and the United Kingdom, but the market share on the foreign markets is minimal. Nýherji's domestic operations account for almost 70% of the Group's revenue.

According to figures from Statistics Iceland<sup>14</sup>, the turnover in the ICT sector (Information and Communication Technology) in Iceland has increased by 183% from 1998 until 2008. The diagram below shows the substantial increase in turnover in the period from 1998-2008. The largest increase is in the Telecommunication sector. During the period, the consumer price index has increased by 67.9%.

Turnover in the ICT sector 1998-2008



The Icelandic IT market<sup>15</sup>, as a part of ICT market, has been rather volatile in recent years. There have been numerous mergers and acquisitions, leading to a consolidation of the market. The largest players that are most prominent on the Icelandic IT market at present are Nýherji hf., Skýrr hf. and Opin kerfi ehf. In addition to operating on the telecommunications market, Síminn and Vodafone are also participants on the IT market. The acquisition of TM Software hf. in 2008 made Nýherji the largest player in Iceland, in terms of turnover, with a focus on IT<sup>16</sup>.

The focus of the companies on the market has been on expanding the range of services; mergers between IT and telecom companies are a good example of this trend, which has been reflected across the market in northern Europe in recent years. Customers of IT companies increasingly want larger service providers who can offer a broader range of services. There is a growing trend that companies are outsourcing various activities which are not part of their core business. Advisory services and other technical services are becoming an ever more important part of the business of IT companies in order to optimise the customers' environment.

<sup>14</sup> www.statice.is – figures are not available for 2009

<sup>15</sup> The Icelandic IT market is defined as the combination of Computer equipment and service and Software companies

<sup>16</sup> Frjáls Verslun issue 8-9. 2010 (300 largest) page 118

#### 4.4 Corporate outlook

Nýherji's goal is to maintain its leadership position on the overall IT market for its current market segments. The aim of the Group's domestic units is to offer its customers all IT solutions in one place while supporting the specialization of individual units. To be able to accomplish this Nýherji needs to continuously strengthen technical and specialised knowledge level of its experts as well as key management teams and other employees. The importance of working closely with customers is continually increasing and is based on close partnership with regular meetings and presentations of equipment and solutions from Nýherji and its subsidiaries.

The operations of Nýherji and its subsidiaries have improved as a result of streamlining measures and downsizing or discontinuation of less profitable units. General operating expenses have been reduced as well as the number of employees.

The demand for computer equipment and technical solutions has increased in the second half of 2010 compared to the last two years, especially on the corporate market. The sales for audiovisual solutions and sales of consumer equipment has been increasing. Looking at the overall IT market in Iceland it is possible that an accumulated need for IT solutions has been building up for the past two years as companies and public offices have altered the procurement rules in order to reduce cost as much as possible. In the last few months, Nýherji has seen slow but sure improvements in some of its key market areas and the overall IT market is expected to remain at current level or slightly improve in the coming months and throughout the year 2011. However the speed of recovery will vary from one company to another within Nýherji's organization. Market conditions for managed and professional service in Iceland expect moderate growth in the next 12 months. Demand for services is strong both locally and abroad and the pipeline for software sales is also picking up after the banking crisis.

In Denmark, preparation is underway to offer new products and services based on company experts' broad-based expertise to the many Danish companies that use SAP software. The business solutions unit in Sweden primarily focuses on selling solutions and services to banks and financial companies in the Nordic region, including own solutions, which are used in Sweden and Denmark by several of the Nordic countries' largest banks.

There has not been any significant change in the financial or trading position of the Group, other than the refinancing, since the end of September 2010, see chapter "6.3.1 Pro forma 30.09.10" for further information. Nýherji has no principal investments in progress and the Company has not made any commitments on future investments. However, the Company includes the possibility of selling assets in the range of ISK 400 to 600 million in 2011, in order to reduce its leverage.

The overall aim of Nýherji is to use its broad range of product offerings and services, based on well known brands, to increase its customer base and to strengthen its relationship with current customers. Nýherji will focus on gradual growth in its target markets and may consolidate more its organisation in Iceland and thereby reflecting the changes faced in its operational environment during the last couple of years.

## **5. ADMINISTRATIVE, MANAGEMENT, SUPERVISORY BODIES, SENIOR MANAGEMENT AND EMPLOYEES**

As an Icelandic limited liability company, the organisational structure of the Issuer is governed by the Act no. 2/1995 respecting Public Limited Companies.

### **5.1 Corporate governance**

Corporate governance is defined as the framework by which the Company is directed and controlled and the means by which relationships among the management, board of directors, Shareholders, and other stakeholders are conducted.

The board of directors of Nýherji hf. places great importance on maintaining good corporate governance and observing the "Guidelines on Corporate Governance"<sup>17</sup> issued by the Icelandic Chamber of Commerce, NASDAQ OMX Iceland hf. and the Confederation of Icelandic Employers in June 2009. This section on corporate governance discusses the main deviations from the aforementioned guidelines. The board of directors has established detailed rules of procedure which define the authority of the board of directors and its responsibilities in respect of the chief executive officer. These rules of procedure include rules on order for a meeting, detailed rules on the eligibility of board members to participate in discussions on items of business, rules on confidentiality, reporting by the chief executive officer to the board of directors etc. These rules of procedure can be found on the company's website. The company's board of directors decides the terms of employment of the chief executive officer and meets the auditors on a regular basis. The board of directors has appointed all three board members to serve on an audit committee, whose rules can be found on the Company's website. All three board members are independent of the company; one board member, Guðmundur J. Jónsson, and an alternate board member, Jafet S. Ólafsson, are independent of major shareholders as defined in article 2.5. of the "Guidelines on Corporate Governance". The board of directors has not established any formal values for itself or a written code of ethics or rules on corporate social responsibility nor has it formally evaluated its own work or that of the managing director and other managers of the company. The board of directors has not considered it necessary to create a remuneration and appointment committee as this is not warranted by the size of the company.

In 2010 16 board meetings and four meetings of the auditing committee have been held. The majority of the board of directors and auditing committee has attended all the meetings.

On 9 November 2010 the company received a warning from Nasdaq OMX Iceland as the stock exchange believed that the investor presentation on the financial restructuring of the company of 19 August 2010 for select investors contained price-sensitive information which the company ought to have published as soon as the presentation was held.

The following chapters contain further information on the Company's corporate governance.

### **5.2 Statutory bodies**

The ultimate authority in the affairs of Nýherji, within the limits established by statutory provisions and the Company's Articles of Association, is in the hands of lawfully convened Shareholders' meetings. The Annual General Meeting (AGM) is to be held by the end of June each year and called with three weeks' notice. Shareholders' meetings shall be held at the decision of the board, or at the demand of the elected auditor or of Shareholders controlling at least one-tenth of the Company's Share capital. A demand for a Shareholders' meeting must be made in writing, must specify the agenda, and must be called within the lawful deadline. In the Shareholders' meeting each Share with a nominal value of one ISK will carry one

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<sup>17</sup> Corporate Governance Guidelines – Third Edition (June 2009) can be found at:  
[http://www.vi.is/files/Corporate%20Governance%20June%202009\\_867414528.pdf](http://www.vi.is/files/Corporate%20Governance%20June%202009_867414528.pdf)

vote. A plurality of the votes decides issues except otherwise provided in the Articles of Association or Icelandic laws.

Between Shareholders' meetings, Nýherji's board of directors has the final authority in matters relating to the Company. The board determines the policy of the Nýherji Group and carefully monitors all of its operations, sets policy and organisational structure, and ensures that activities are generally in good order. In particular, it shall ensure that there is adequate monitoring of both Company bookkeeping and the allocation of Company funds.

The board comprises three members and one alternate member who are elected at the AGM for a term of one year at a time. Those intending to declare their candidacy for the board must notify the board in writing at least seven days before the AGM. Only persons who have declared their candidacy in this way are eligible for election to the board.

The board of directors shall elect a chairman among its members and shall otherwise divide tasks among themselves as it deems appropriate. The chairman of the board calls board meetings and presides over them. Meetings shall be held whenever the chairman considers it necessary. Furthermore, the chairman is obliged to call a board meeting at the demand of any board member or the CEO. As a result, Nýherji's board meetings are only deemed lawful if three board members or two members and an alternate are in attendance. The boards of subsidiaries generally comprise three members. Board members allocate tasks among themselves. They are responsible for the operations of subsidiaries within the operational framework and authorisation provided by the Nýherji hf.'s board. The Issuer's board of directors has established one committee, the audit committee which consists of members of the directors of the board who are competent to deal with the Company's financial issues.

The CEO of Nýherji is appointed by the board and is responsible for the day-to-day operations, in accordance with the policy and decisions of the board. It is the CEO's role to ensure that the operations of the firm and its subsidiaries are in line with its Articles of Association and current legislation.

### **5.3 Board of directors and senior management**

The following description describes the members of the administrative, management and supervisory bodies of the Issuer and any senior manager who is relevant to establishing that the Issuer has the appropriate expertise and experience for the management of the Issuer's business, including their remuneration and holdings in Nýherji hf. as at 16 December 2010.

#### **5.3.1 Board of directors**

The Issuer's board of directors is composed of three members, to be elected at AGM for a term of one year. One alternate director is also elected. The following description describes the board members that form the Issuer's board of directors as of today and elected at the last AGM.

All directors, including the alternate director, are non executive and considered independent of the Issuer. No service contracts providing for benefits for any of the Board of Directors upon termination of duties have been made with the Issuer or any of its subsidiaries. One director along with the alternate director is considered independent from major Shareholders. A major Shareholder is any party controlling at least 10% of the Company's total Share capital, either solely or acting in concert with related parties. The independence of a board member is evaluated as specified in Article 2.6 of the Guidelines on Corporate Governance.

The business address of the members of the board of directors of Nýherji hf. is Borgartún 37, 105 Reykjavík, Iceland.

No member of the board has had any conviction in relation to fraudulent offences in the previous five years. No member of the board has been a senior manager, member of the administrative, management or supervisory bodies of a company, which has been a part of or associated with bankruptcy, receivership, or liquidation in the previous five years. No member of the board has been subject to any official public incrimination and/or sanctions by statutory or regulatory authorities and has never been disqualified by a court

from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer in the previous five years.

No family relationships exist between any of the members of the board and the senior management as now composed. No board member is engaged in any activities outside of the Group that are significant with respect to the Issuer. No arrangement or understanding exist with major Shareholders, customers, suppliers or others, pursuant to the selection of any board member. There are no other conflicts of interest or potential conflicts of interest between any duties owed to the Issuer by any of the members of the board and such persons' private interests and or other duties.

The following section lists the current members of the board of directors and principal activities, including details of all companies and partnerships of which each board member is a member of the administrative, management and/or supervisory bodies or a partner, or has been in the previous five years, and main occupations and/or other occupations that are linked to the ownership or operations of Nýherji.

### Chairman of the board of directors

<i>Name:</i>	<b>Benedikt Jóhannesson</b>
<i>Elected:</i>	Member since 1995, serving as chairman since 1996.
<i>Education:</i>	PhD in statistics, minoring in mathematics, from Florida State University (1981), MSc in statistics from Florida State University (1979) and BSc in mathematics, minoring in economics, from the University of Wisconsin (1977).
<i>Board positions:</i>	<p>Current board positions in addition to directorship of the Issuer: Chairman of the board of Applion Holding ehf. Serves as a member of the boards of Áning-fjárfestingar ehf., BNT hf., Íslenska óperan ses. and N1 hf.</p> <p>Former board positions at the following companies during the last five years: Sjóvá-Almennar tryggingar hf., Iceland Social Security (Chairman in 2007) and Iceland State Health Insurance (chairman 2008-2010).</p>
<i>Other positions and experience:</i>	<p>Benedikt Jóhannesson is the CEO of the business and management consultancy firm Talnakönnun hf. which he founded in 1984. He is also the CEO of the publisher Útgáfufélagið Heimur hf., a subsidiary of Talnakönnun hf., and of the holding company Áning-fjárfestingar ehf.</p> <p>Benedikt Jóhannesson is vice chairman of the Association of Icelandic Actuaries. Previously he has been chairman the Icelandic mathematical society and of the Icelandic association of science teachers and, along with being a teacher at the University of Akureyri 1991-1993, the University of Iceland 1982-1988 and the Commercial College of Iceland 1982-1986.</p>

### Deputy chairman of the board of directors

<i>Name:</i>	<b>Árni Vilhjálmsson</b>
<i>Elected:</i>	Member since incorporation 1992, serving as chairman 1992-1996 and as deputy chairman since 1996.
<i>Education:</i>	Cand. Oecon. degree in economics from the University of Iceland (1954); MA in macroeconomics and a General Oral Examination for PhD at Harvard University (1957).

<i>Board positions:</i>	Current board positions in addition to directorship of the Issuer: Applicon Holding ehf., Fiskveiðahlutafélagið Venus hf., Hampiðjan hf., HB Grandi hf. (chairman), Hvalur hf. (chairman), Norðanfiskur (alternate), Stofnfiskur hf. (chairman), Vogun hf. (chairman) and Vænting hf. (chairman).  Former board positions during the last five years: None.
<i>Other positions and experience:</i>	Árni Vilhjálmsson was professor of business administration at the University of Iceland 1961-1998.

#### Member of the board of directors

<i>Name:</i>	<b>Guðmundur Jóhann Jónsson</b>
<i>Elected:</i>	Member since 2005, alternate director 1999-2005.
<i>Education:</i>	MBA from from the University of Edinburgh (2000), BA in business administration from Seattle University (1985).
<i>Board positions:</i>	Current board positions in addition to directorship of the Issuer: AppliCon ehf., Hreint ehf. (chairman) and Viðlagatryggingar Íslands (alternate).  Former board positions at the following companies during the last five years: Guðmundur Runólfsson hf. and Securitas hf.
<i>Experience:</i>	Guðmundur Jóhann is the CEO of the insurance companies Vörður tryggingar hf. since 2006 and Vörður líftryggingar hf. since 2007. Previously he was the employee of Sjóvá-Almennar tryggingar hf. and SP-Fjármögnun hf.

#### Alternate member of the board of directors

<i>Name:</i>	<b>Jafet S. Ólafsson</b>
<i>Elected:</i>	Alternate since 2009.
<i>Education:</i>	Cand. Oecon. degree in economics from the University of Iceland (1977).
<i>Board positions:</i>	Current board positions in addition to directorship of the Issuer: Aðalskoðun hf. (chairman), Bókmenntafélagið Drápuhlíð ehf., Hitaveita Kóngsbakka ehf. (chairman), Icelandic Water Holdings ehf. (alternate), Innri-Kóngsbakki ehf. (chairman), Jabo ehf. (chairman), OR ehf., Rúmenska fjárfestingafélagið ehf., Valsmenn hf., Veiðiheimilið Árnesi ehf. (chairman) and Veigur ehf. (chairman).  Former board positions at the following companies during the last five years: VBS fjárfestingarbanki hf., Steinullarverksmiðjan hf. and Kauphöll Íslands hf.
<i>Experience:</i>	The CEO of Verðbréfastofan hf. from foundation 1996 until 2006 when recently being renamed VBS fjárfestingabanki hf. The CEO of Íslenska útvarpsfélagið Stöð 2 1994-1996. Branch manager at Iðnaðarbankinn hf. and Íslandsbanki hf. 1988-1994. An employee at Þróunarfélag Íslands 1986-1988. Head of clothing department of Samband Íslenska Samvinnufélaga 1984-1986. A department head at the Icelandic Ministry of Industry 1979-1984 and its employee from 1977.

### 5.3.2 Senior management

<i>Name:</i>	<b>Þórður Sverrisson</b>
<i>Position:</i>	<b>CEO of Nýherji</b> since April 2001.
<i>Business Address:</i>	Borgartún 37, 105 Reykjavík, Iceland
<i>Education:</i>	Cand. Oecon. degree in economics from the University of Iceland (1977).
<i>Board positions:</i>	<p>Current board positions: AppliCon ehf. (chairman), AppliCon AS (chairman), Application Consulting Sweden AB (chairman), Application Consulting Sweden Holding AB (chairman), Applicon Holding ehf., Áning-fjárfestingar ehf., B37 ehf. (chairman), Klak ehf. (chairman), Litmyndir ehf. (chairman), Litmyndir, prentmiðlun ehf. (alternate), Sense ehf. (chairman), Simdex ehf. (chairman), Skyggvir ehf. upplýsingaþjónusta (chairman), TM Software Origo ehf. (chairman), Viðja viðskiptaumsjón ehf. (chairman), Vigor ehf. (chairman).</p> <p>Former board positions during the last five years: Hópvinnukerfi hf., Landsvirkjun (alternate), Roka ehf. (chairman) and SPH Rekstrarfélag hf.</p>
<i>Other positions and experience:</i>	Þórður Sverrisson worked for Hf. Eimskipafélag Íslands from the year 1982 and served as director of transport 1986-2001. He was the managing director of The Icelandic Management Association (Stjórnunarfélag Íslands) 1978-1982. Since 2008, Þórður Sverrisson is a member of the University Council for the University of Iceland.
<i>Name:</i>	<b>Kristinn Þór Geirsson</b>
<i>Position:</i>	<b>Deputy CEO</b> since May 2010.
<i>Business Address:</i>	Borgartún 37, 105 Reykjavík, Iceland
<i>Education:</i>	MBA from Wharton Business School (1995) and Cand. Oecon. from University of Iceland (1991).
<i>Board positions:</i>	<p>Current board positions: B37 ehf. (alternate), KH Ráðgjöf ehf., KPG Holding ehf., Nopco Holding A/S, Skyggvir ehf. upplýsingaþjónusta.</p> <p>Former board positions during the last five years: Glitnir banki hf., VBS Fjárfestingarbanki hf., Eignarhaldsfélagið Sævarhöfði ehf., Ingvar Helgason ehf., Bifreiðar og landbúnaðarvélur ehf., Fasteignafélagið Sævarhöfði ehf., Bif ehf., Northern Travel Holding ehf., Sterling A/S, Iceland Express ehf., Astreus Inc.</p>
<i>Other positions and experience:</i>	COO Glitnir banki hf., (2008), CEO of Bifreiðar & Landbúnaðarvélur ehf. (2007-2008), General manager of Sund ehf. (2006-2007), CEO of Ingvar Helgason ehf. (2004-2006), President of Íslenska Sjónumarsfélagið ehf. (2001-2004), CEO of Goði hf. (2000-2001), VP operations of Samskip hf. (1996-2000).

<i>Name:</i>	<b>Friðrik Þór Snorrason</b>
<i>Position:</i>	<b>Managing Director of Skyggfir ehf. upplýsingaþjónusta</b> since January 2009.
<i>Business Address:</i>	Borgartún 37, 105 Reykjavík, Iceland
<i>Education:</i>	MSc in international relations from London School of Economics (1996) and BA in international relations from University of Wisconsin - Madison (1994).
<i>Board positions:</i>	Currently none.
<i>Other positions and experience:</i>	Former board positions during the last five years: AGR hf., Tölvusmiðjan ehf., Dansupport AS.  Friðrik Þór Snorrason worked for Nýherji hf. from the year 2003 to 2008 and served as marketing manager and director of business development. Prior to that he was the director of business control and development for Strax Inc.
<i>Name:</i>	<b>Henrik R. Møller</b>
<i>Position:</i>	<b>Managing Director of AppliCon A/S</b> since November 2010.
<i>Business Address:</i>	Sankts Knuds Vej 41, 1906 Fredriksberg C, Denmark
<i>Education:</i>	Executive MBA (Scandinavian International Management Institute - SIMI); Cand. Scient i Datalogi from University of Copenhagen; Psychology Information from University of Copenhagen (HD Part 1).
<i>Board positions:</i>	Inspari A/S, GellertInnovation ApS, K/S Broadway: Real Estate (Chairman)
<i>Other positions and experience:</i>	2009-2010: AppliCon A/S. Direktør.  2007-2009: Capgemini Danmark A/S. Vice President & COO, Consulting/Technology/Outsourcing services; 2005-2006: Capgemini Danmark A/S. Vice President, Business Unit Director; 2004-2005: Capgemini Danmark A/S. Business Unit Director; 2001- 2004: SAP Danmark A/S. Konsulentchef.

None of the senior management has had any convictions in relation to fraudulent offences in the previous five years. None of the senior management, except for Þórður Sverrisson being the CEO and chairman of Roka ehf. which was declared bankrupt in March 2010, has been a senior manager, member of the administrative, management or supervisory bodies of a company which has been a part of or associated with bankruptcy, receivership or liquidation in the previous five years. None of the senior management has been subject to any official public incrimination and/or sanctions by statutory or regulatory authorities or have ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer in the previous five years.

No family relationships exist between any of the members of the senior management on the one hand and the board of directors or senior management as now composed on the other hand. No member of the senior management is engaged in any activities outside the Group that is significant with respect to the Issuer. No arrangement or understanding exist with major Shareholders, customers, suppliers or others, pursuant to the selection of any member of the senior management. There are no conflicts of interest or potential conflicts of interest between any duties owed to the Issuer by any of the senior managers and such persons' private interests.

#### 5.4 Holdings, remuneration and benefits

The table below provides a breakdown of the remuneration that Nýherji paid in 2009 to the Issuer's board of directors and the Group's senior management.

According to the AGM's resolution on 19 February 2010, the remuneration for the members of the board directors in 2009 was ISK 2,550,000 to the chairman, ISK 850,000 to each of the other two directors and ISK 63,000 to the alternate director for each board meeting attended. This was the same remuneration as for 2008 when it decreased 10% from the year before.

The Issuer does not grant any of its employees benefits or an abnormal long-term of notice upon termination of employment. The Issuer has not set aside or accrued amounts to provide pension, retirement or similar benefits because of any of the board of directors, senior managers or other employees. The Issuer has guaranteed loans amounting to ISK 32.5 million owed by two of its managing directors totaling ISK 65 million. One of the managing directors is part of the group of six managers stated in the remuneration table below.

The table also provides information regarding holdings in Nýherji hf. by these individuals on 16 December 2010. None of the board of directors or senior management is subject to a minimum holding period of their holdings in the Issuer's securities. Details of Shareholdings include Shares held directly by these individuals and Shares held by related parties (as defined in FME Rules no. 987/2006 on Treatment of Insider Information and Insider Trading) of such insiders.

	Salaries	Holdings in own name	Holdings of insider's holding companies	Holdings of other fin. related parties	Call / Put options	Share purchase commit- ment
	ISK m 2009	Shares in Nýherji hf. 16 December 2010			Counted as Shares in Nýherji hf.	
Benedikt Jóhannesson chairman	2.550	12,384,363	-	35,905,156 <sup>1</sup>	-	-
Árni Vilhjálmsson deputy chairman	0.850	400,000	-	93,889,988 <sup>2</sup>	-	3,000,000 <sup>3</sup>
Guðmundur J. Jónsson director	0.850	534,218	-	-	-	-
Jafet S. Ólafsson alternate director <sup>4</sup>	-	5,475,205	-	-	-	-
Þórður Sverrisson CEO	25.083	6,180,107	-	32,701,511 <sup>5</sup>	-	-
Friðrik Þór Snorrason MD	15.927	-	-	-	-	-
Kristinn Þór Geirsson deputy CEO	- <sup>6</sup>	-	-	-	-	-
Henrik R. Møller MD	30.816 <sup>7</sup>	-	-	-	-	-
Group of six managing directors <sup>8</sup>	77.841	237,000	-	-	-	-

<sup>1</sup> Áning-fjárfestingar ehf., Vigdís Jónsdóttir and Talnakönnun hf.

<sup>2</sup> Vænting hf. and Fiskveiðahlutafélagið Venus hf.

<sup>3</sup> Commitment in own name

<sup>4</sup> Elected February 2009

<sup>5</sup> Áning-fjárfestingar ehf. and Audur Invest Holding SA

<sup>6</sup> No salaries in 2009 but 12 million for 8 months in 2010

<sup>7</sup> Salaries for 10 months in 2009

<sup>8</sup> MD at Nýherji hf. and of Skyggvir, Sense, Applicon ehf., TM Software Origo and Viðja

## 5.5 Auditors

A state authorised public accountant or accounting firm is elected as the auditor at each annual general meeting of Nýherji hf. for a term of one year. The qualifications and eligibility of the auditor at elections are governed by law. The chartered accountants and registered auditor of Nýherji hf. and all Icelandic subsidiaries of the Group are KPMG hf. ID-No. 590975-0449, Borgartún 27, 105 Reykjavík, Iceland. The auditor of KPMG hf. responsible for Nýherji is Jón S. Helgason, ID-No. 050269-3619. He signed KPMG's review on the financial statements for the first nine months 2010. The auditor of KPMG hf. responsible for Nýherji for the fiscal year 2009 was Sæmundur Valdimarsson, ID-No. 070263-4409 and for the period of 2007-2008 was Sæmundur Valdimarsson and Ólafur Már Ólafsson, ID-No. 090368-3469.

The change in 2010 is made according to paragraph 3 of Article 20 of Act no. 79/2008 on auditors, an auditor responsible for auditing a unit where there are public interests at stake shall take a break from auditing that unit for at least two continuous years no later than seven years after he or she was assigned the task.

The payments to elected auditors of all companies within the Group were as the following table outlines for the years 2007-2009.

<b>Payments to auditors</b>			
<i>(ISK m)</i>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Audit of financial statements	11.3	18.2	15.1
Review of interim financial statements	3.1	5	0
Other professional services	3.5	4.7	15.4
<b>Total</b>	<b>17.9</b>	<b>28</b>	<b>30.5</b>
Thereof payments to others than KPMG hf.	3.5	9.7	8.3

## 5.6 Compliance officer

The Issuer's compliance officer is directly responsible to the board of directors and is independent in his or her duties.

## 5.7 Employees

The Group's employees counted 540 full-time equivalent positions on 30 September 2010. As of 1 December 2010 the number of employees has reduced slightly, or around 1%.

<b>Full-time equivalent positions</b>	<b>30.09.10</b>	<b>31.12.09</b>	<b>31.12.08</b>	<b>31.12.07</b>	<b>31.12.06</b>
Total at the end of period	540	607	690	482	351
Average during the period	565	641	719	446	337
Changes between periods	-67	-83	208	131	

Nýherji and its subsidiaries have had to respond to the sharp contraction in the market by cutting back on staff and reducing wage costs. There were 540 positions on 30 September 2010 compared to 690 at the beginning of 2009, decreasing by 150 full-time equivalent positions during 2009 and the first nine months of 2010. In February 2009, all salaries were cut by 10%, and staffing was reduced in stages during the year. Because the employees of various individual divisions of Nýherji and subsidiaries have a wealth of experience and expertise, the Company has attempted to protect jobs to the maximum extent possible, and

staff members have not been laid off unless project flow has made it unavoidable. If employees have to be laid off, the Company attempts to assist them in interviews with employment agencies and in other ways as well. The Company hopes that, when demand returns to normal, it can again seek assistance from the many excellent employees it has been forced to part with.

The Viðja human resources service handles integration and steering of personnel services for firms in the Group, with emphasis on Iceland. The implementation of the Group's business model, together with organisational changes, called for multi-faceted projects and integration of procedures early in the year. Viðja is responsible for joint support services for Nýherji and subsidiaries, and personnel services handles all projects in human resources and staffing affairs.

A workplace analysis carried out in November 2009 indicated that, in spite of substantial changes and a deep contraction, the workplace spirit is positive. Employee satisfaction measured 4.09 on a scale of 5.00, which is quite a positive result, especially in such demanding times. The score means that about 80% of the Company's employees are satisfied or very satisfied in their jobs. It is also good to see that some 70% of the firm's employees had a positive attitude and were ready to face further changes if necessary in the near future. As before, the Group's employees are its key to successful operations and superlative customer service.

No Share based payments plan is active in the Company today and no decisions have been made regarding a new plan being established. In 2006 the Group established a Share option program for key management personnel that enabled them to purchase Shares in the Company at the exercise price of 14 during the years from 2007-2010, but options according to that program expired 30 September 2010.

The following table breaks down the number of employees per Icelandic and foreign business units:

<b>Full-time equivalent positions</b>			
<i>Icelandic business units</i>		<i>Foreign business units</i>	
Nýherji hf.	44	Dansupport A/S	31
Viðja viðskiptaumsjón ehf.	37	AppliCon A/S	70
Sense ehf.	29	Application Consulting Sweden AB	48
Skyggjir ehf. upplýsingaþjónusta	160	AppliCon Solutions Ltd.	0
TM Software Origo ehf.	46	AppliCon Solutions A/S	2
eMR hugbúnaður ehf.	21		
SimDex ehf.	0		
Applicon Holding ehf.	1		
AppliCon ehf.	37		
Vigor ehf.	15		
Klak ehf.	1		
<b>Total</b>	<b>389</b>	<b>Total</b>	<b>151</b>

## 5.8 Related party transactions

The Issuer's related parties are defined according to IAS 24.

No unusual transactions have taken place between Nýherji and its related parties. The board believes that all of the related party transactions are conducted on an arm's length basis, both transactions between entities within the Group and transactions between Group companies and related parties who are not part of the Group. Nýherji engages in and expects to continue to engage in transactions with its related parties.

Remuneration of the Group's senior management and board of directors, along with information on holdings in the Issuer's Shares, is stated under the heading "*5.4 Holdings, remuneration and benefits*".

There is no effect on the Group's financial statements of any relationship between the Group's subsidiaries and the Group. The funding of the Group is centralised. The Group's parent company has therefore provided loans and guarantees to its subsidiaries.

The Issuer has guaranteed two loans amounting to ISK 32.5 million each, owed by two of its managing directors totaling ISK 65 million. One of the managing directors is part of the group of six managers stated in the remuneration table in chapter "*5.4 Holdings, remuneration and benefits*" above.

The first nine months 2010 reflects the effects of the bankruptcy of Roka ehf., further described in chapter "*1.5.6.4 Litigation and disputes*". During the period from 1 January 2007 to the date of this Share Registration Document, no losses on receivables from related parties and loans and deposits to related parties or write-down for such losses have been incurred apart from Roka ehf.

## 6. FINANCIAL OVERVIEW

This overview is based on Nýherji's financial statements for the years ended 31 December 2007, 2008 and 2009 and the nine months ended 30 September 2010. The consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The financial statements for 2007, 2008 and 2009 have been audited and the nine months for 2010 have been reviewed by Nýherji's auditors KPMG hf.

The presentation of financial statements is in accordance with revised IFRS IAS 1 *Presentation of Financial Statements (2007)*, which came effective as of 1 January 2009. As a result, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented for 2008 and 2007 so that it also in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per Share.

In the financial statements for 2009, KPMG hf. included the following emphasis in its report: "Without qualifying our opinion, we draw attention to the fourth paragraph in note 2d to the consolidated financial statements, which describes the great uncertainty that has emerged in the Icelandic economy and its potential impact on the final outcome of the fair value of assets. Furthermore, we draw attention to note 19 to the consolidated financial statements, which states that the Company does not meet with the terms of loan agreements with credit institutions stating that should the equity ratio or EBITDA ratio go below a certain benchmark the loans could fall due. The Company's management has entered into negotiations with credit institutions and in an agreement between the parties it is implied that the Company will work on financial restructuring in the near future." The Company concluded agreements with its creditors on the restructuring of the Company's long-term liabilities at the end of September 2010 and reached agreements with investors on a Share increase. Each part of this refinancing, including both the payment of increased Share capital and the settlement of agreements to the banks, was subject to each other.

In the financial statements for 2008, KPMG hf. included the following emphasis in its report: "Without qualifying our opinion, we draw attention to note 19 to the consolidated financial statements, which states that the Company does not meet with the terms of loan agreements with credit institutions stating that should the equity ratio or EBITDA ratio go below a certain benchmark the loans could fall due. The Company's management has entered into negotiations with credit institutions but a conclusion has not yet been reached. Should the loans fall due and negotiations on refinancing fail there will be uncertainty on the Company's going concern."

The reviewed nine month financial statements 30 September 2010 are without any emphasis or disclaimer to KPMG's opinion and include the issue of 120,000,000 new Shares at the price of ISK 7.0 per Share for a total price of ISK 840 million. Thereof unpaid Share capital in the amount of ISK 644 million is capitalised in the statement of financial position as at 30 September.

The pro forma figures for 30 September 2010 include the decrease in the Company's interest bearing debt by a total of ISK 2,245 million as a result of the financial restructuring the Company's debt has undergone. That includes a sale of the Company's real estate at Borgartún 37 to a company in the ownership of Íslandsbanki hf. at a price of ISK 1,650 million. At the same time the Company has signed a 15-year lease agreement on Borgartún 37. The Company reached agreements with Arion Bank hf. and Íslandsbanki hf. on the restructuring of the Company's long-term debt, where the effective debt repayment schedule will be seven to fifteen years, a part of the loans will be converted from foreign currency to ISK and their principal will decrease. The adjustments made in pro forma financial position as at 30 September 2010 reduce the Company's interest-bearing debt to ISK 2,855 million and increase the equity ratio to 30.8%.

The quantitative analysis to follow will detail Nýherji's financial performance in recent years. Investors are advised to read all the explanatory notes, including the descriptions of accounting policies, to the accounts.

To facilitate comparison between years, it is appropriate to point out the primary changes made in Nýherji's operations:

- In March 2010, the subsidiary of Nýherji hf., Roka ehf., was declared bankrupt in the District Court of Reykjanes. This company was named TM Software hf. until 28 August 2009 and TM Software ehf. until 5 February 2010. The ruling was appealed to the Supreme Court, which upheld the ruling in May this year. The statement of comprehensive income of Roka ehf. for the the first quarter of 2010 is a part of the statement of comprehensive income of the Group. As Nýherji hf. no longer controls Roka ehf. all of the company's assets and liabilities are eliminated from the consolidated financial statements of Nýherji hf. as at 31 March 2010.
- At the end of 2009 the board of Nýherji decided to sell the operations of ParX ehf. to PricewaterhouseCoopers hf. Following the sale ParX ehf. was merged with Nýherji in 2010.
- In 2008 Nýherji acquired TM Software hf.
- At the end of January 2008 Nýherji acquired Marquardt & Partners AB, which was merged with the activities of AppliCon Sweden.

### **6.1 A few significant accounting policies highlighted**

The financial statements for Nýherji hf. are prepared in accordance with the IFRS. Nýherji's accounting policies are described in Note 3 to the Group's consolidated financial statements of 2009. The following issues are not an exhaustive copy from that Note.

#### **Foreign currency**

##### *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. 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.

##### *Foreign subsidiaries*

The assets and liabilities of foreign operations, including goodwill arising on acquisition, are translated to Icelandic krónur at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Icelandic krónur at average exchange rates of the period. Foreign currency differences are recognised in other comprehensive income. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

#### **Property and equipment**

##### *Recognition and measurement*

Items of property and equipment are measured at cost or revalued cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within "other income" or "other operating expenses" in profit or loss. When revalued assets are sold the amounts in the revaluation reserve is transferred to retained earnings.

##### *Subsequent costs*

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and

its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

#### *Depreciation*

Depreciation is calculated over the depreciable amount, which is the cost or revalued cost of an asset, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives periods are as follows: Buildings 50-75 years; Computer hardware 4 years; Equipment, fixtures and fittings 5-7 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The useful life of the building at Borgartún 37 was revised during the year and expected useful life increased from 50 to 75 years. Because of this, expensed depreciation is ISK 12 million less than it would have been with unchanged useful life.

### **Intangible assets**

#### *Goodwill*

Goodwill arises on the acquisition of subsidiaries. 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 as income in profit or loss.

#### *Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses.

### **Impairment**

#### *Non-financial assets*

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.

### **New standards and interpretations not yet adopted**

The Group has applied all International Financial Reporting Standards, amendments to standards and interpretations that the EU has adopted at year-end 2009 and are relevant to its operations. The Group has not adopted standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2009, but can be adopted earlier. The effect on the consolidated financial statements of the Group has not been evaluated, but in the future direct cost related to business combination will be expensed as incurred, in accordance with amended IFRS 3, Business Combinations.

## 6.2 Profit and loss - Statutory accounts

### 6.2.1 Nine months 2010 and 2009

The following table shows Nýherji's reviewed consolidated statement of comprehensive income for the nine months ended 30 September 2010 and the consolidated statement of comprehensive income for 30 September 2009.

<b>Consolidated statement of comprehensive Income</b> <i>(ISK m)</i>	<b>2010</b> <i>9 m</i>	<b>2009</b> <i>9 m</i>
Sales of goods and services	10,273	10,339
Cost of goods and services sold	(4,598)	(4,343)
<b>Gross profit</b>	<b>5,675</b>	<b>5,996</b>
Other income	12	11
Salaries and related expenses	(4,162)	(4,521)
Other operating expenses	(1,198)	(1,495)
<b>EBITDA</b>	<b>327</b>	<b>(9)</b>
Depreciation	(216)	(152)
Impairment losses on goodwill	-	(180)
<b>EBIT</b>	<b>111</b>	<b>(341)</b>
Net finance expense	(151)	(504)
Effect of bankrupt subsidiary	246	-
<b>Profit (loss) before income tax</b>	<b>207</b>	<b>(845)</b>
Income tax	3	(70)
<b>Profit (loss) for the period</b>	<b>210</b>	<b>(914)</b>
Foreign currency translation differences	(78)	45
Revaluation of real estate less income tax	-	692
<b>Total comprehensive income (loss) for the period</b>	<b>132</b>	<b>(178)</b>
<b>Key ratios</b>		
Sales growth	-0.6%	-
EBITDA growth	3,594.6%	-
EBIT growth	132.7%	-
Gross margin	55.2%	58.0%
EBITDA margin	3.2%	-0.1%
EBIT margins	1.1%	-3.3%
Salaries / sales	40.5%	43.7%
Operating expenses / sales	11.7%	14.5%

There was positive development in the operations of Nýherji in the first nine months of 2010. The demand for computers and technical equipment has increased, and sales exceed budget. After a considerable decrease in the number of software consultants, a balance has been achieved with the demand for domestic software services, and these operations are now profitable.

According to the statement of comprehensive income, profit for the period amounted to ISK 210 million for the first nine months of 2010 compared to a loss of ISK 914 million in the first nine months of 2009. When foreign currency translation difference of foreign operations is taken into consideration and revaluation of the real estate, the Group's comprehensive income amounted to ISK 132 million compared to a loss of ISK 178 million in 2009. However, if the effect of the bankrupt subsidiary is excluded, a net loss of ISK 114 million would have been realised in the first nine months of 2010.

Basic earnings per Share were ISK 0.76 for the first nine months of 2010 and loss of ISK 3.32 per Share for the first nine months of 2009.

## **Revenues**

Sales of goods and services totalled ISK 10,273 million in the first nine months of 2010 compared to ISK 10,339 million in the first nine months of 2009. The sales of network servers and database solutions and computer equipment were considerably above budget. The sales for audiovisual solutions were on budget and sales of consumer equipment were steady.

Other income, which consists of rent income, amounted to ISK 12 million in the period compared to ISK 11 million the same time in 2009.

## **Gross profit**

Cost of goods and services sold amounted to ISK 4,598 million in the first nine months of 2010 compared to ISK 4,343 million in the first nine months of 2009. The gross margin in the period decreased however and was 55.2% compared to 58.0% in the same time last year. Service income decreased in 2010 as result of the sale of the operations of ParX ehf. and a sharp decrease in sales at AppliCon in Denmark while cost remained at similar levels.

## **EBITDA**

Salaries and related expenses were ISK 4,162 million in the first nine months of 2010 compared to ISK 4,521 million in the first nine months of 2009. Salaries as a percentage of sales also decreased between periods and were 40.5% and 43.7% in the first nine months of 2010 and 2009 respectively. The decrease in 2010 is a result of reduction in staff in the period and the appreciation of the ISK in the period, which led to a decrease in salaries of the Company's foreign operations in the amount of ISK 125 million. The average number of full-time positions in the first nine months of 2010 was 565 but was 652 for the same period the year before.

Other operating expenses were ISK 1,198 million in the first nine months of 2010 compared to ISK 1,495 million in the first nine months of 2009. Housing expense decreased by ISK 125 million in the period as the Company's headquarters have moved back to Borgartún 37 from Urðarhvarf 6. In addition to the housing expense decrease, the Company has been focusing on cost rationalisation and as a result the cost ratio has decreased considerably and was 11.7% in the first nine months of 2010 compared to 14.5% in the first nine months of 2009.

EBITDA amounted to ISK 327 million in the first nine months of 2010 compared to a loss of ISK 9 million in the first nine months of 2009.

## **Operating profit (EBIT)**

Depreciation amounted to ISK 216 million in the first nine months of 2010 compared to ISK 152 million in the same period last year. The increase between periods is mainly related to increased depreciation at Skyggir ehf. upplýsingaþjónusta.

Impairment loss on goodwill relating to two of the Company's subsidiaries amounted to ISK 180 million in the first nine months of 2009.

The operating profit amounted to ISK 111 million for the first nine months of 2010 compared to a loss of ISK 341 million in the first nine months of 2009.

## **Financial expenses and taxes**

Financial expenses amounted to ISK 336 million in the first nine months of 2010 compared to ISK 528 million in the first nine months of 2009. The difference between the two periods is explained by the currency loss recognised in 2009.

Financial income amounted to ISK 186 million in the first nine months of 2010 compared to ISK 24 million in first nine months of 2009. The difference between the two periods is explained by currency gains in the amount of ISK 178 million in 2010. The appreciation of the ISK in the period led to currency gains on the Company's foreign currency loans but currency loss on receivables of the Company's foreign subsidiaries was realised.

Income tax income amounted to ISK 3 million in the first nine months of 2010 compared to ISK 70 million expenses in the first nine months of 2009. The income tax did not include the effect of the bankrupt subsidiary, which explains the positive income tax in 2010.

### Bankruptcy of a subsidiary

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

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

### 6.2.2 Annual accounts 2007-2009

The following table shows Nýherji's audited consolidated income statement for the years ended 31 December 2009, 31 December 2008 and 31 December 2007. Figures for 2008 in the table are extracted from the financial statements in 2009, which were restated as the IFRS accounting standard IAS 1 was changed and took effect on 1 January 2009. Please refer to note 2.e in the financial statements for 2009 for more detailed information.

<b>Consolidated statement of comprehensive income</b> <i>(ISK m)</i>	<b>2009</b>	<b>2008*</b>	<b>2007*</b>
Sales of goods and services	14,332	14,913	11,301
Cost of goods and services sold	(6,355)	(6,820)	(6,318)
<b>Gross profit</b>	<b>7,977</b>	<b>8,092</b>	<b>4,984</b>
Other income	14	23	54
Salaries and related expenses	(6,080)	(5,952)	(3,295)
Other operating expenses	(1,973)	(1,854)	(1,036)
<b>EBITDA</b>	<b>(62)</b>	<b>309</b>	<b>706</b>
Depreciation	(273)	(250)	(106)
Impairment losses on goodwill	(322)	-	-
<b>EBIT</b>	<b>(657)</b>	<b>59</b>	<b>600</b>
Net finance expense	(667)	(1,480)	(92)
<b>(Loss) profit before income tax</b>	<b>(1,324)</b>	<b>(1,421)</b>	<b>508</b>
Income tax	(37)	220	(88)
<b>(Loss) profit for the period</b>	<b>(1,361)</b>	<b>(1,201)</b>	<b>420</b>
Foreign currency translation differences	8	430	(4)
Revaluation of real estate less income tax	667	-	-
<b>Total comprehensive income (loss) for the period</b>	<b>(686)</b>	<b>(771)</b>	<b>416</b>

**Key ratios**

Sales growth	-3.9%	32.0%	30.7%
EBITDA growth	-120.1%	-56.2%	3.4%
EBIT growth	-1218.7%	-90.2%	2.8%
Gross margin	55.7%	54.3%	44.1%
EBITDA margin	-0.4%	2.1%	6.2%
EBIT margin	-4.6%	0.4%	5.3%
Salaries / sales	42.4%	39.9%	29.2%
Operating expenses / sales	13.8%	12.4%	9.2%

\* Figures for 2007 and 2008 have been re-presented so that they are in conformity with the revised standard IFRS IAS 1 *Presentation of Financial Statements (2007)*, which came effective as of 1 January 2009. Figures for 2008 are sourced from the 2009 financial statements but the re-presented figures for 2007 are based on information provided by the Issuer's management.

**6.2.2.1 2009 vs. 2008**

Overall economic conditions and the operating environment for Icelandic companies were poor during 2009, as the Nýherji's operating results show clearly. Demand contracted due to reduced investments in equipment and software system installation. Sales decreased considerably in foreign currency terms, and technical experts' projects related to installation and implementation of equipment and software shrank accordingly. Due to the tight conditions in the Icelandic economy, firms are keeping investments in new software licenses and system installation to a minimum, and related consultancy and other specialised projects have seen a significant downturn. This contraction led to a difficult year and considerable losses.

Total comprehensive loss for 2009 amounted to ISK 686 million compared to a loss of ISK 771 million in 2008. Basic loss per Share was ISK 4.93 in 2009 compared to a loss of ISK 4.68 in 2008. Other comprehensive income amounted to ISK 675 million in 2009 and ISK 430 million in 2008 and consists of foreign currency translation differences for foreign operations, revaluation of real estate and income tax on the revaluation. The foreign currency translation difference is a result of the transfer of financial statements of the Company's foreign subsidiaries and the corresponding debt to ISK. The revaluation relates to a revaluation of the Company's real estate to fair value as at 1 April 2009. The book value of the real estate was increased by ISK 814 million. The fair value of the real estate is its market value, based on probable selling price, as estimated by independent experts. The real estate was sold to Íslandsbanki hf. in relation to the financial restructuring of the Company.

**Revenues**

Net sales totalled ISK 14,332 million in 2009 compared to ISK 14,913 million in 2008. The 3.9% decrease between years reflects the current challenging economic and operational environment in Iceland. Goods and related services accounted for around 65% of total sales in 2009 and increased by 1.3% from the year before while software, related services and consultancy accounted for around 35% in 2009 and decreased by 1.1% from the year before. Companies in general invested only the minimum in new software licences and thus projects relating to installation of hardware and software reduced considerably in 2009.

Other income was ISK 14.2 million in 2009 and ISK 23.3 million in 2008 and it consists mainly of rent income from Klak but it used to rent part of Borgartún 37.

**Gross profit**

Cost of goods and services sold amounted to ISK 6,355 million in 2009 compared to ISK 6,820 million in 2008. The decrease of 6.8% is mainly due to the sales decrease between years. However the gross margin increased in 2009 and was 55.7% compared to 54.3% in 2008 as majority of cost of service sold is salary expenses.

**EBITDA**

Salaries and related expenses is the largest cost item of the Company and amounted to ISK 6,080 million in 2009 compared to ISK 5,952 million in 2008. Salaries as percentage of sales were 42.4% in 2009 and 39.9% in 2008. The increase between years is due to higher salaries of foreign employees as a result of depreciation

of the ISK and an increase in the payroll tax by 62%. A staff reduction of 96 employees in Iceland along with a 10% pay-cut of all employees at the beginning of 2009 however offset the increase to a large extent. Average full-time positions in 2009 were 641 but 719 in 2008 and full-time equivalent positions at year-end 2009 were 602.

Other operating expenses amounted to ISK 1,973 million in 2009 compared to ISK 1,854 million. Other operating expenses as percentage of sales were 13.8% in 2009 and 12.4% in 2008. The increase between years is due to higher cost of foreign operations as a result of the depreciation of the ISK.

EBITDA was negative of ISK 62 million in 2009 compared to positive ISK 309 million in 2008.

### **Operating profit (EBIT)**

Depreciation was ISK 273 million in 2009 and ISK 250 million in 2008. The majority of the depreciation relates to the Company's computer equipment, which has a depreciation rate of 25%. The increase between years is partly due to the revaluation of the real estate; however it is offset to some extent by the increased expected useful life of the building at Borgartún 37, which is now 75 years instead of 50 years.

Impairment loss on goodwill relating to two of the Company's subsidiaries amounted to ISK 322 million in 2009.

The Company's operating loss was ISK 657 million in 2009 compared to a profit of ISK 59 million in 2008.

### **Financial expense and taxes**

The financial expenses amounted to ISK 724 million in 2009 as opposed to ISK 1,543 million in 2008. The expenses consist of an interest expense of ISK 500 million in 2009 and ISK 520 million in 2008 and currency loss of ISK 224 million in 2009 and ISK 1,023 million in 2008, which is mainly related to the Company's foreign loans. The reason for the high currency loss in 2008 was the fall of the ISK as result of the collapse of the Icelandic banks in the autumn of 2008. Financial income amounted to ISK 57 million in 2009 compared to ISK 63 million in 2008 and consists mainly of interest income on bank accounts.

Total income tax recognised in profit or loss amounted to negative ISK 37 million in 2009 despite the loss for the year. The main reason is that the Company's subsidiaries' deferred tax assets amounting to ISK 195 million were expensed in 2009 due to uncertainty of utilisation. The effective tax ratio was negative of 2.8% in 2009 compared to positive of 15.5% in 2008.

#### **6.2.2.2 2008 vs. 2007**

Major changes and growth characterise Nýherji's 2008 operations. In 2008, the Company acquired TM Software hf. with the aim of reinforcing the Nýherji Group's activities in the areas of Managed ITC services, hosting and developing specialised corporate software solutions. Part of the purchase price of ISK 1,406 million was paid for with Shares in Nýherji. The company also completed the acquisition of the Swedish company Marquardt & Partners, which was merged with the activities of AppliCon Sweden early in 2008.

A new business model was prepared and introduced for Nýherji's activities in Iceland, which was announced at the beginning of October 2008. The aim of the new business model was to sharpen the company's focus, enabling it to respond to market needs through subsidiaries with individual specialisations, while at the same time harmonizing group efforts and improving cost efficiency. Nýherji now serves as the parent company for six principal subsidiaries, each of which specializes in a clearly distinguished area of service, product sales, software or consultancy, tailored to the needs of customers in its area of specialization.

In tandem with these changes, parts of Nýherji's activities were moved to Urðarhvarf 6 in Kópavogur, where TM Software hf. was located. Parts of Nýherji's activities remained in Borgartún 37. However, Nýherji has now moved its activities back to Borgartún 37 as of 21 March 2010.

Total comprehensive loss for 2008 amounted to ISK 771 million compared to a profit of ISK 416 million in 2007. Basic loss per Share was ISK 4.68 in 2008 compared to a profit of ISK 1.86 in 2007. Foreign currency translation differences for foreign operations amounted to ISK 430 million in 2008, compared to ISK 4 million loss in 2007.

## **Revenues**

Net sales totalled ISK 14,913 million in 2008 compared to ISK 11,301 million in 2007. The 32% increase between years is mainly due to acquisition growth. Goods and related services accounted for around 64% of total sales in 2008 and increased by 19.7% from the year before while software, related services and consultancy accounted for around 36% in 2008 and increased by 63.0% from the year before.

Other income was ISK 23 million in 2008 and ISK 54 million in 2007 and it consists mainly of rental income.

## **Gross profit**

Gross profit increased by 62.4% between 2007 and 2008 and the gross margin increased from 44.1% to 54.3% or by 23.1% as sale of service increased with the acquisition of TM Software hf. but the majority of the cost of service sold is salary expenses.

## **EBITDA**

Salaries and related expenses amounted to ISK 5,952 million in 2008 compared to ISK 3,295 million in 2007. The increase of 80.7% is due to large increase in number of employees due to the acquisition of TM Software hf. and higher salaries of foreign employees as a result of depreciation of the ISK. Average full-time positions in 2008 were 719 but 446 in 2007.

Other operating expenses amounted to ISK 1,854 million in 2008 compared to ISK 1,036 million. The increase of 78.9% between years is due to increased operating expenses as TM Software hf. was included in the Group from 1 February 2008.

EBITDA was ISK 309 million in 2008 compared to ISK 706 million in 2007.

## **Operating profit (EBIT)**

Depreciation was ISK 250 million in 2008 and ISK 106 million in 2007. The majority of the depreciation is on the Company's computer hardware and its depreciation rate is 25%.

The Company's operating profit was ISK 59 million in 2008 compared to ISK 600 million in 2007.

## **Financial expenses and taxes**

The financial expenses significant in 2008 and amounted to ISK 1,543 million compared to ISK 156 million in 2007. The expenses consist of interest expenses and a currency loss (mainly on the company's foreign loans) amounting to ISK 520 million and ISK 1,023 million in 2008 compared to ISK 145 million and ISK 11 million in 2007. The reason for the significant currency loss in 2008 was the fall of the ISK by 56% as result of the collapse of the Icelandic banks in the autumn of 2008 as well as increased debt due to acquisitions of companies.

The effective tax ratio for the Group amounted to 15.5% in 2008 compared to 17.4% in 2007. In May 2008, the Icelandic Parliament agreed to reduce the income tax ratio from 18% to 15% as of 1 January 2008 and the change is effective for 2009 tax assessment. Therefore, the income tax liability has decreased by ISK 15 million compared to 31 December 2007. The effect is recognized as income in the Company's income statement. The effective tax rate is specified as income tax using Icelandic corporation tax rate, reduction in tax rate, effect of tax rate in foreign jurisdiction and other.

### **6.2.3 Turnover by activities**

Nýherji's business segments for consolidation are:

- IT products and related services. The segment includes Nýherji (the parent company), Skygggir ehf. upplýsingaþjónusta, Sense ehf. and Dansupport A/S.
- Software, related services and consultancy – software developing and other related services. The segment includes AppliCon in Iceland, Denmark and Sweden, Vigor ehf., Klak ehf., TM Software Origo ehf., eMR ehf. and Viðja viðskiptaumsjón ehf.

### 6.2.3.1 9 months 2010 and 2009

The following table shows Nýherji's revenues for the period covering the first nine months of 2010 and 2009 for comparison segmented by the two business categories as they were defined in the consolidated financial statement of Nýherji for the first nine months of 2009.

<b>Business segments</b>	<b>IT products and related services</b>	<b>Software, related services, consultancy</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>1 January - 30 September 2010</b>				
Sales of goods and services	7,097	3,693	(517)	10,273
Segment result (EBITDA)	213	130	(16)	327
Depreciation	(168)	(48)	-	(216)
<b>1 January - 30 September 2009</b>				
Sales of goods and services	6,815	4,103	(580)	10,339
Segment result (EBITDA)	85	(119)	25	(9)
Depreciation	(83)	(69)	-	(152)
Impairment losses on goodwill	(180)	-	-	(180)

### 6.2.3.2 2007-2009

The following table shows Nýherji's revenues for the period covering 2007-2009 segmented by the two business categories as they were defined in the consolidated financial statement of Nýherji for 2009.

<b>Business segments</b>	<b>IT products and related services</b>	<b>Software, related services, consultancy</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>2009</b>				
Sales to external customers	9,311	5,035	-	14,347
Inter-segment revenue	508	407	(914)	-
Total segment revenue	9,819	5,442	(914)	14,347
Segment expenses	(9,613)	(5,710)	914	(14,409)
Segment result (EBITDA)	206	(268)	-	(62)
Depreciation	(187)	(85)	-	(273)
Impairment losses on goodwill	(288)	(34)	-	(322)
Segment assets	5,590	4,005	-	9,595
Segment liabilities	4,340	3,991	-	8,331
Capital expenditure	138	56	-	194
<b>2008</b>				
Sales to external customers	9,531	5,405	-	14,936
Inter-segment revenue	166	98	(264)	-
Total segment revenue	9,698	5,503	(264)	14,936
Segment expenses	(9,378)	(5,513)	264	(14,627)
Segment result (EBITDA)	320	(11)	-	309
Depreciation	(147)	(103)	-	(250)
Segment assets	5,367	4,763	-	10,130
Segment liabilities	4,297	3,869	-	8,166
Capital expenditure	159	123	-	282

<b>2007</b>				
Sales to external customers	8,025	3,330	-	11,355
Inter-segment revenue	78	45	(124)	-
Total segment revenue	8,104	3,376	(124)	11,355
Segment expenses	(7,541)	(3,232)	124	(10,649)
Segment result (EBITDA)	562	144	-	706
Segment assets	3,810	1,851	-	5,661
Segment liabilities	2,826	1,071	-	3,897
Capital expenditure	137	32	-	169

#### 6.2.4 Turnover by geographical markets

The foreign operations account for about one-third of the Company's total income, of which majority is in DKK. There are a total of 151 full-time equivalent positions while there are 389 full-time equivalent positions in Iceland as of 30 September 2010.

AppliCon A/S in Denmark currently employs 70 employees. It has grown steadily and consistently turned a profit in all quarters, until Q4 2009. In Q2 2010 AppliCon A/S signed its largest agreement to date on introducing SAP-business systems for hospitals and other healthcare institutions in the administrative district of Region Hovedstaden in Copenhagen and North Seeland. AppliCon A/S collaborates as subcontractor with Siemens IT solutions on this project; AppliCon A/S's share is about ISK 1,800 million over a three-year period. AppliCon Sweden has 48 employees and is a profitable business. These companies mostly service larger corporations and banks in Denmark and Sweden.

Dansupport A/S in Denmark has 31 full-time equivalent positions and its operations have improved since 2008. Although the company recorded a sizeable loss in 2009, it has exceeded budget for the first nine months of 2010.

The following table shows Nýherji's revenues geographically segmented for the period covering 2007-2009. The break-down in 2010 is similar to the one in 2009.

Geographical segments	Iceland	Other countries	Total
<b>2009</b>			
Sales to external customers	9,862	4,485	14,347
Segment assets	6,211	3,384	9,595
Capital expenditure	150	44	194
<b>2008</b>			
Sales to external customers	11,419	3,517	14,936
Segment assets	6,394	3,736	10,130
Capital expenditure	265	17	282
<b>2007</b>			
Sales to external customers	9,660	1,695	11,355
Segment assets	4,205	1,457	5,661
Capital expenditure	162	6	169

#### 6.3 Statement of financial position – Statutory accounts

The following table shows Nýherji's reviewed consolidated statement of financial position on 30 September 2010 compared to audited consolidated statement of financial position on 31 December 2009, 31 December 2008 and 31 December 2007 along with the pro forma statement of financial position on 30 September 2010, which is discussed further in chapter "6.3.1 Pro forma 30.09.2010".

<b>Consolidated statement of financial position</b> <i>(ISK m)</i>	<b>30.09.10</b> <i>Pro forma</i>	<b>30.09.10</b>	<b>31.12.09</b>	<b>31.12.08</b>	<b>31.12.07</b>
Property and equipment	524	2,107	2,103	1,386	1,155
Intangible assets	3,715	3,715	3,958	4,151	1,178
Investments in other companies	-	-	-	-	14
Deferred tax assets	53	85	94	242	-
Long-term notes	17	17	18	38	17
<b>Total non-current assets</b>	<b>4,309</b>	<b>5,924</b>	<b>6,174</b>	<b>5,817</b>	<b>2,364</b>
Inventories	648	648	631	647	694
Trade and other receivables	2,642	2,642	2,406	3,199	2,486
Unpaid Share capital	-	644	-	-	-
Cash and cash equivalents	112	112	385	468	118
<b>Total current assets</b>	<b>3,403</b>	<b>4,047</b>	<b>3,421</b>	<b>4,313</b>	<b>3,298</b>
<b>Total assets</b>	<b>7,711</b>	<b>9,970</b>	<b>9,595</b>	<b>10,130</b>	<b>5,661</b>
Share capital	395	395	275	276	226
Share premium	1,791	1,791	1,084	1,097	153
Reserves	410	1,056	1,139	464	29
Accumulated deficit	(236)	(1,032)	(1,245)	105	1,341
Equity attributable to equity holders of the parent company	2,359	2,209	1,253	1,942	1,750
Non-controlling interest	14	14	11	22	14
<b>Total equity</b>	<b>2,373</b>	<b>2,223</b>	<b>1,264</b>	<b>1,964</b>	<b>1,764</b>
Loans and borrowings	2,097	2,562	1,523	2,669	1,111
Deferred tax liabilities	2	2	3	-	70
<b>Total non-current liabilities</b>	<b>2,099</b>	<b>2,564</b>	<b>1,526</b>	<b>2,669</b>	<b>1,181</b>
Loans and borrowings	758	2,538	4,014	2,343	553
Tax payables	-	-	-	16	-
Trade and other payables	2,481	2,645	2,791	3,138	2,163
<b>Total current liabilities</b>	<b>3,239</b>	<b>5,183</b>	<b>6,805</b>	<b>5,497</b>	<b>2,717</b>
<b>Total liabilities</b>	<b>5,338</b>	<b>7,748</b>	<b>8,331</b>	<b>8,166</b>	<b>3,897</b>
<b>Total equity and liabilities</b>	<b>7,711</b>	<b>9,970</b>	<b>9,595</b>	<b>10,130</b>	<b>5,661</b>

<b>Key ratios</b>					
Equity ratio	30.8%	22.3%	13.2%	19.4%	31.2%
Net interest bearing debt / Equity	1.2x	2.2x	4.1x	2.3x	0.9x
Net interest bearing debt / EBITDA	10.0x*	18.2x	-82.8x	14.7x	2.2x
EBITDA interest coverage	2.2x	2.2x	-0.1x	0.2x	7.4x
EBIT interest coverage	0.7x	0.7x	-1.0x	0.0x	6.3x
Days inventory outstanding (DIO)	38	38	36	35	40
Days sales outstanding (DSO)	60	60	56	69	71
Days payable outstanding (DPO)	56	56	75	80	38

\* Trailing 12 months (first nine months 2010 plus Q4 2009)

### 6.3.1 Pro forma 30.09.10

On 29 September 2010 it was announced that the Company had made agreements on refinancing its long-term obligations. Nýherji has signed agreements that same date with its largest creditors, Arion Bank hf. and Íslandsbanki hf., on the reorganization of long-term loans including a sale and leaseback of its real estate at Borgartún 37, and signed agreements with investors on an increase of Share capital. The documentation with the banks was finalised in December 2010 and therefore a part of the refinancing was recorded in the Company's accounts after 30 September 2010. To reflect on the remaining part of the refinancing, a pro forma financial position as at 30 September 2010 has been prepared and reviewed. A pro forma income statement was not prepared as the refinancing causes no material changes to the operating results.

The Company's real estate at Borgartún 37 has been sold to an investment company controlled by Íslandsbanki hf. at a price of ISK 1,650 million and subsequently the Company decreases its debt by the same amount. At the same time the Company has signed a 15-year lease agreement on Borgartún 37. This transaction was recorded in the Company's accounts after 30 September 2010 and adjusted for in the pro forma financial position below. Property and equipment decrease by ISK 1,583 million, which is the book value of the real estate net of depreciation, deferred tax assets decrease by ISK 12 million and equity increases by ISK 56 million relate to the sale. The net effect of the sale of the real estate at Borgartún 37 on the profit or loss accounts is approximately ISK 10 million per month in expenses taking into consideration the lease agreement on Borgartún 37 less the real estate expenses related to the ownership of the property. In addition, the Company no longer pays rent for Urðarhvarf as of 21 March 2010.

The increased Share capital amounted to ISK 840 million, where 120,000,000 new Shares equal to 42.9% share increase were sold at the price of ISK 7.0 per Share. The estimated cost of the Share issue is ISK 16 million (ISK 13 million net of tax) and the net proceeds mainly used to reduce long-term borrowings in accordance with the agreements with the banks. At 30 September 2010 the increase was recorded in full in the Company's accounts, but thereof ISK 644 million as unpaid Share capital since due in December 2010 following the issue of this Prospectus. In the pro forma financial position below, the intended settlement of this unpaid share capital is adjusted for.

The Company's loan principal was decreased by ISK 113 million due to a write-down simultaneously with restructuring from foreign to domestic loans. Loans and borrowings have been adjusted by this amount in the pro forma financial position below, deferred tax assets decreased by ISK 20 million and equity increased by ISK 94 million.

In the pro forma financial position, trade and other payables decrease by ISK 164 million which is the accumulated accrued interest on the Company's loans and is added to the current loans and borrowings. Additionally, the pro forma financial position shows reclassification of the Company's loans and borrowings from non-current to current.

The adjustments made in pro forma financial position as at 30 September 2010 reduce the Company's interest-bearing debt to ISK 2,855 million and increase the equity ratio to 30.8%.

The following table shows the unadjusted reviewed financial position on 30 September 2010, the pro forma adjustments and the resulting pro forma financial position on 30 September 2010. The pro forma figures are the responsibility of the Company's management and have been reviewed by its auditors and are in accordance with IFRS.

<b>Consolidated statement of financial position</b> <i>(ISK m)</i>	<b>30.09.10</b>	<b>Adjustments</b>	<b>30.09.10</b> <i>pro forma</i>
Property and equipment	2,107	(1,583)	524
Intangible assets	3,715	-	3,715
Deferred tax assets	85	(32)	53
Long-term notes	17	-	17
<b>Total non-current assets</b>	<b>5,924</b>	<b>(1,615)</b>	<b>4,309</b>
Inventories	648	-	648
Trade and other receivables	2,642	-	2,642
Unpaid share capital	644	(644)	-
Cash and cash equivalents	112	-	112
<b>Total current assets</b>	<b>4,047</b>	<b>(644)</b>	<b>3,403</b>
<b>Total assets</b>	<b>9,970</b>	<b>(2,259)</b>	<b>7,711</b>
Share capital	395	-	395
Share premium	1,791	-	1,791
Reserves	1,056	(646)	410
Accumulated deficit	(1,032)	796	(236)
Equity attributable to equity holders of the parent company	2,209	150	2,359
Non-controlling interest	14	-	14
<b>Total equity</b>	<b>2,223</b>	<b>150</b>	<b>2,373</b>
Loans and borrowings	2,562	(465)	2,097
Deferred tax liabilities	2	-	2
<b>Total non-current liabilities</b>	<b>2,564</b>	<b>(465)</b>	<b>2,099</b>
Loans and borrowings	2,538	(1,780)	758
Trade and other payables	2,645	(164)	2,481
<b>Total current liabilities</b>	<b>5,183</b>	<b>(1,944)</b>	<b>3,239</b>
<b>Total liabilities</b>	<b>7,748</b>	<b>(2,409)</b>	<b>5,338</b>
<b>Total equity and liabilities</b>	<b>9,970</b>	<b>(2,259)</b>	<b>7,711</b>

### **6.3.2 Auditors' review report on pro forma financial information**

*To the board of directors of Nýherji hf.*

*We have reviewed the accompanying pro forma consolidated statement of financial position of Nýherji hf. as of 30 September 2010. This consolidated financial information is the responsibility of the Company's management. Our responsibility is to issue a report on this pro forma financial information based on our review.*

*We have conducted certain procedures which involved comparison to the reviewed consolidated financial statements for the first nine months 2010 for Nýherji hf., consideration of the evidence supporting the necessary adjustments, recalculating the amounts presented in the pro forma statement of financial position based on the information obtained and discussing the pro forma financial information with the directors of Nýherji hf. Our review is limited and thus provides less assurance than an audit and accordingly, we do not express an audit opinion.*

*Based on our review procedures, nothing has come to our attention that causes us not to believe that:  
the pro forma financial information has been properly compiled on the basis stated;  
such basis is consistent with the accounting principles used by Nýherji hf.;  
the adjustments are appropriate for the purposes of the pro forma financial information as disclosed;  
financial information for 2010 is prepared in accordance with IFRS.*

*We consent to the inclusion of this letter and the reference to our opinion in the Registration Document to be issued by Nýherji hf. in the form and context in which it appears.*

*Reykjavík, 17 December 2010*

***On behalf of KPMG hf.***

***Jón S. Helgason***

*State authorised public accountant*

*Icelandic ID-No. 050269-3619*

### **6.3.3 30.09.10 vs. 31.12.09**

#### **Operating assets**

Property and equipment totalled ISK 2,107 million on 30 September 2010 compared to ISK 2,103 million on 31 December 2009. The properties are at Borgartún 37 in Reykjavík, Kaupvangsstræti 4 and Skipagata 18 in Akureyri and Miðás 1-5 in Egilstaðir.

Nýherji's assets are subject to encumbrances according to restrictions on disposing of assets as part of the covenants of the Group's Loan Agreement. Nýherji is not aware of any environmental issues that could affect its operating assets.

#### **Intangible assets**

Intangible assets amounted to ISK 3,715 million as of 30 September 2010 compared to ISK 3,958 million as of 31 December 2009. The difference is due to changes in DKK between years as part of the goodwill relates to Dansupport A/S and AppliCon A/S.

#### **Other non-current assets**

Deferred tax assets amounted to ISK 85 million at the end of the first nine months of 2010 compared to ISK 94 million as of 31 Desember 2009.

Long-term notes amounted to ISK 17 million as of 30 September 2010 and ISK 18 million as of 31 December 2009. The notes relate to financial leases to companies outside the Group.

#### **Inventories**

Inventories amounted to ISK 648 million on 30 September 2010 compared to ISK 631 million on 31 December 2009. It took the Company 38 days to turn its inventory into sales in the first nine months for 2010 and 36 days in the year 2009.

#### **Trade and other receivables**

Trade receivables amounted to ISK 2,273 million on 30 September 2010 compared to ISK 2,194 million on 31 December 2009. It took the Company 60 days to collect revenue in the first nine months of 2010 after a sale has been made compared to 56 days in 2009. Other receivables amounted to ISK 369 million at 30 September 2010 compared to ISK 212 million on 31 December 2009.

#### **Cash and cash equivalents**

Cash amounted to ISK 112 million on 30 September 2010 compared to ISK 385 million on 31 December 2009.

#### **Interest-bearing debt**

Total interest-bearing debt amounted to ISK 5,100 million on 30 September 2010 compared to ISK 5,537 million on 31 December 2009. For further information on the debt restructuring please see chapter "6.3.6 *Capital Resources*".

#### **Trade and other payables**

Trade payables amounted to ISK 947 million on 30 September 2010 compared to ISK 1,309 million on 31 Decemeber 2009. It took the Company 56 days to pay its creditors in the first nine months of 2010 and 75 days in 2009.

### **6.3.4 31 December 2009 vs. 31 December 2008**

#### **Operating assets**

Property and equipment amounted to ISK 2,103 million as of 31 December 2009 compared to ISK 1,386 million as of 31 December 2008. The increase between years is due to a revaluation of the Company's real estate. The majority of the value relates to Borgartún 37. The book value of the real estate was increased to fair value or by ISK 814 million. The fair value is the market value, based on probable selling price, as

estimated by independent experts. The book value of the real estate at the end of 2009 before revaluation was ISK 823 million and ISK 1,629 million after the revaluation.

The expected useful life of the real estate at Borgartún 37 was also increased alongside the revaluation and is now 75 years instead of 50 years.

### **Intangible assets**

Intangible assets amounted to ISK 3,958 million at the end of 2009 compared to ISK 4,151 million and comprise mainly goodwill that has arisen on the acquisition of subsidiaries. Goodwill relating to the IT products and related services segment amounted to ISK 1,138 million at the end of 2009 and ISK 1,410 million at the end of 2008. Goodwill relating to the Software, related services and consultancy amounted to ISK 2,540 million at the end of 2009 and ISK 2,482 million at the end of 2008.

Some of the goodwill was tested for impairment at the end of June 2009. The impairment test is based on discounted future cash flows. The pre-tax discount rate applied was based on the weighted average cost of capital, i.e. the cost of debt and equity. If fair value of goodwill (discounted cash flows) is lower than carrying amount the difference is expensed. The impairment test led to an ISK 180 million impairment of goodwill associated with two subsidiaries. The goodwill was tested again at the end of December 2009 and that led to another impairment of goodwill associated with the two subsidiaries in the amount of ISK 142 million. The total impairment loss on goodwill of subsidiaries thus amounted to ISK 322 million and was expensed in profit and loss.

### **Other non-current assets**

Deferred tax assets amounted to ISK 94 million on 31 December 2009 compared to ISK 242 million on 31 December 2008. Deferred tax assets of subsidiaries' tax loss carry-forwards amounting to ISK 195 million at year-end 2009 have not been capitalised as it is improbable that future taxable profit will be available against which the Group can utilise the benefits there from.

Long-term notes amounted to ISK 18 million as of 31 December 2009 compared to ISK 38 million as of 31 December 2008. The decrease of ISK 20 million is due to a repayment of the financial leases to companies outside the Group.

### **Inventories**

Inventories consist mainly of inventories in stores and warehouse and amounted to ISK 631 million at the end of 2009 compared to ISK 647 million at the end of 2008. It took the Company 36 days to turn its inventory into sales in 2009 and 35 days in 2008.

### **Trade and other receivables**

Trade receivables amounted to ISK 2,194 million on 31 December 2009 compared to ISK 2,825 million on 31 December 2008. The decrease between years is a result of decreased sales in 2009 and fewer days in collecting revenue. It took the Company 56 days to collect revenue in 2009 after a sale has been made compared to 69 days in 2008. Other receivables were ISK 212 million at the end of 2009 and ISK 373 million at the end of 2008.

### **Cash and cash equivalents**

Cash and cash equivalents comprise mainly of demand deposits and totalled ISK 385 million on 31 December 2009 compared to ISK 468 million on 31 December 2008.

### **Interest-bearing debt**

Total interest-bearing debt amounted to ISK 5,537 million on 31 December 2009 compared to ISK 5,012 million on 31 December 2008. Loans in ISK were 36% of the total outstanding interest bearing debt as of 31 December 2009 of which 36% was indexed. The majority of the rest of the outstanding interest bearing debt on 31 December 2009 was in DKK and EUR or 26% and 18% respectively.

The Company leases operating assets under a number of finance lease agreements. Some of these leases provide the Company with the option to purchase the equipment at a beneficial price at the end of the lease

period. On 31 December 2009 the net carrying amount of leased equipment was ISK 0 but ISK 28 million on 31 December 2008.

#### **Trade and other payables**

Trade payables totalled ISK 1,309 million at the end of 2009 compared to ISK 1,492 million at the end of 2008. It took the Company 75 days to pay its creditors in 2009 and 80 days in 2008.

Other payables consist of regular operating items such as VAT and unpaid related salary expenses and amounted to ISK 1,482 million at the end of 2009 and ISK 1,646 million at the end of 2008.

### **6.3.5 31 December 2008 vs. 31 December 2007**

#### **Operating assets**

Property and equipment amounted to ISK 1,386 million as of 31 December 2008 compared to ISK 1,155 million as of 31 December 2007. The increase between years is mainly due to a revaluation of the Company's computer hardware and its equipment, fixtures and fittings.

#### **Intangible assets**

Intangible assets amounted to ISK 4,151 million at the end of 2008 compared to ISK 1,178 million at the end of 2007 and comprise mainly goodwill arising on acquisitions of subsidiaries and effects from movements in exchange rates. Goodwill relating to the IT products and related services segment amounted to ISK 1,410 million at the end of 2008 and ISK 390 million at the end of 2007. Goodwill relating to the Software, related services and consultancy amounted to ISK 2,482 million at the end of 2008 and ISK 788 million at the end of 2007.

At year-end 2008 the goodwill was tested for impairment and according to the impairment test the goodwill was not impaired at year-end 2008.

#### **Other non-current assets**

Deferred tax assets amounted to ISK 242 million on 31 December 2008 compared to nil on 31 December 2007 as the Company recorded a profit in 2007 but loss in 2008.

#### **Inventories**

Inventories amounted to ISK 647 million at the end of 2008 compared to ISK 694 million at the end of 2007. It took the Company 35 days to turn its inventory into sales in 2008 and 40 days in 2007 as the economic climate at the end of 2008 led to restrictions with foreign suppliers causing fewer products delivered to the Company.

#### **Trade and other receivables**

Trade receivables amounted to ISK 2,825 million on 31 December 2008 compared to 2,209 million on 31 December 2007. The increase between years is a result of increased sales in 2008. Other receivables were ISK 373 million at the end of 2008 compared to ISK 277 million at the end of 2007. It took the Company 69 days to collect revenue in 2008 after a sale has been made compared to 71 days in 2007.

#### **Cash and cash equivalents**

Cash and cash equivalents are mainly unrestricted deposits with financial institutions and totalled ISK 468 million on 31 December 2008 compared to ISK 118 million on 31 December 2007.

#### **Interest-bearing debt**

Total interest-bearing debt amounted to ISK 5,012 million on 31 December 2008 compared to ISK 1,664 million on 31 December 2007. Loans in ISK were 38% of the total outstanding interest bearing debt as of 31 December 2008. The majority of the rest of the outstanding interest bearing debt on 31 December 2008 was in DKK and EUR or 24% and 19% respectively.

During the year, the exchange rate of the ISK decreased substantially, which in turn led to a considerable increase in the Company's liabilities in foreign currencies. The Company also withdrew on its revolver additional ISK 850 million.

On 31 December 2008 the net carrying amount of leased equipment was ISK 28 million and ISK 27 million on 31 December 2007.

### 6.3.6 Capital resources

The following table shows how the Company's financing has been managed in recent years and its position on 30 September 2010. The Company has reached agreements with Arion Bank hf. and Íslandsbanki hf. on the restructuring of the Company's long-term debt, where the effective debt repayment schedule will be seven to fifteen years, a part of the loans will be converted from foreign currency to ISK and their principal will decrease. Consequently the Company's interest-bearing debt decreases and amounts to ISK 2,855 million as of 30 September 2010.

<b>Capital resources</b> <i>(ISK m)</i>	<b>30.09.10</b> <i>Pro forma</i>	<b>30.09.10</b>	<b>31.12.09</b>	<b>31.12.08</b>	<b>31.12.07</b>
Trade and other current liabilities	2,481	2,645	2,791	3,138	2,163
Non-current interest-bearing debt	2,097	2,562	1,523	2,669	1,111
Current interest-bearing debt	758	2,538	4,014	2,343	553
<b>Total interest-bearing debt</b>	<b>2,855</b>	<b>5,100</b>	<b>5,537</b>	<b>5,012</b>	<b>1,664</b>
<b>Total liabilities</b>	<b>5,338</b>	<b>7,748</b>	<b>8,331</b>	<b>8,166</b>	<b>3,897</b>
Equity	2,373	2,223	1,264	1,964	1,764
<b>Equity and liabilities</b>	<b>7,711</b>	<b>9,970</b>	<b>9,595</b>	<b>10,130</b>	<b>5,661</b>
Net interest bearing debt / Equity	1.2x	2.2x	4.1x	2.3x	0.9x

Nýherji has historically been financed mainly through a mixture of equity and long-term debt. Major investments, such as company acquisitions, have been financed with a combination of new equity and debt. Debt is principally sourced from long-term loans raised centrally by the parent company. Individual subsidiaries are not allowed to engage in external financing contracts with banks or credit institutions, unless specifically authorised.

The Company's debt consists of operational loans and revolving facilities with Arion Bank hf. and Íslandsbanki hf. Just over half of the Company's borrowings are ISK denominated, non-indexed with floating interest rates. The other half is denominated in foreign currency, mainly EUR and DKK, due to the nature of its business, i.e. the operations of subsidiaries abroad.

Nýherji has granted pledge over all shares in its subsidiaries to secure the prompt payment of its borrowings. Nýherji and its subsidiaries have granted pledge over their operational assets. The loan agreements furthermore stipulate a negative pledge clause whereby Nýherji is not allowed to pledge any of its assets subsequent to the agreement.

The Company's loan agreements contain restrictions on the payment of dividends, unless the financial covenants discussed below are fulfilled and it is foreseen that these covenants will be met in the Company's forecast for the following 12 months after the dividend payment.

Some of the loan agreements include financial covenants that relate to earnings and financial leverage of the Company. Interest rate terms may change subject to the covenants and should Nýherji become unable to fulfil certain covenants, it could cause accelerated repayment of borrowings or even authorise a creditor to call in the entire debt.

The Company's debt can be accelerated if the Company does not deliver acceptable operational results. Its largest loan agreement includes a cross-default covenant, which causes that the Group must stand covenants in all agreements that can cause an acceleration of any payment obligation. The Company is of the opinion that it can adhere to covenants that triggers acceleration. The Company's EBITDA shall be measured at the

end of each quarter of the financial year and presented to the creditors within one month from the end of the quarter. The measuring of 12 month EBITDA shall start as for the period ending 31 March 2011 and may not be below ISK 300 million for that period. The minimum EBITDA level required increases gradually over the following 1.5 year and shall not be below ISK 675 million for the 12 months ending 30 June 2012. If the Company does not maintain the minimum required EBITDA level and the Company's leverage ratio, i.e. net interest bearing debt to EBITDA, exceeds 5.5 the Company's debt can be accelerated or the entire debt can be called in. Furthermore, the leverage ratio may not exceed 3.5 as of 30 June 2012. Additionally, the Company's equity ratio shall be at least 25% at 31 December 2010 and 30% at 31 December 2011 and at the end of each subsequent year during the term of the loan.

### Contractual obligations

In the table below, the Company sets forth its contractual obligations. Some of the figures the Company includes in this table are based on management's estimates and assumptions about these obligations, including their duration, anticipated actions by third parties, and other factors. Because these estimates and assumptions are necessarily subjective, the enforceable and legally binding obligations the Company will pay in future periods may vary from those reflected in the table.

The following table highlights the Company's contractual obligations as of 30 September 2010:

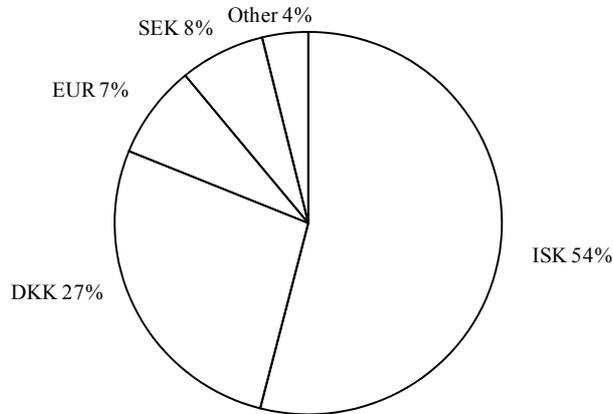
<b>Non-derivative financial liabilities as of 30.09.10 (ISK m)</b>	<b>Less than 1 year</b>	<b>1 -5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Loans and borrowings	1,738	2,230	332	4,300
Bank overdrafts	800	-	-	800
Trade and other payables	2,645	-	-	2,645
Operating lease obligations	66	4	-	70
<b>Total</b>	<b>5,249</b>	<b>2,234</b>	<b>332</b>	<b>7,815</b>

The following table highlights the Company's contractual obligations as of 30 September 2010 pro forma:

<b>Non-derivative financial liabilities as of 30.09.10 pro forma (ISK m)</b>	<b>Less than 1 year</b>	<b>1 -5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Loans and borrowings	408	2,097	-	2,505
Bank overdrafts	350	-	-	350
Trade and other payables	2,481	-	-	2,481
Operating lease obligations	231	664	1,650	2,545
<b>Total</b>	<b>3,470</b>	<b>2,761</b>	<b>1,650</b>	<b>7,881</b>

The following diagram shows the Company's loans and borrowings split by currency as of 30 September 2010 pro forma.

### Loans and borrowings split by currency 30.09.10 pro forma



#### Off-balance sheet arrangements

The Issuer has guaranteed loans totaling ISK 65 million owed by two of its employees.

The Company leases real estate and equipment under operating leases. Non-cancellable operating lease rentals, which are not included in the statement of financial position, amounts to ISK 2,545 million in the next 15 years.

The loan agreement relating to the property at Borgartún 37 is not subject to any encumbrance thereon.

Non-cancellable operating lease rentals are payable as follows: (ISK m)	30.09.10 <i>Pro forma</i>	30.09.10	31.12.09	31.12.08	31.12.07
Less than one year	231	66	368	355	18
Between one and five years	664	4	885	1,087	8
After five years	1,650	-	2,683	1,567	-
Total	2,545	70	3,935	3,009	27

#### 6.3.7 Equity and changes in equity

##### 6.3.7.1 Nine months 2010 and 2009

The equity on 30 September 2010 totalled ISK 2,223 million compared to ISK 1,264 million on 31 December 2009. The increase is explained by the total comprehensive income for the period and the Share capital increase.

The board of directors of Nýherji hf. exercised in September 2010 the authority of Annual General Meeting to increase the Company's Share capital by ISK 120 million in nominal value. The Company has concluded agreements with investors on the purchase of this Share capital at the rate of 7.0 and the sales value thus amounts to ISK 840 million. At the end of September 2010 Share capital in the amount of ISK 28 million in nominal value was paid and registered. Share capital in the amount of ISK 92 million in nominal value will be paid and registered in December and an unpaid Share capital in the amount of ISK 644 million is capitalised in the statement of financial position as on 30 September 2010. Following the increase, Share

capital according to the Company's Articles of Association amounted to ISK 400 million in nominal value. The Company's treasury Shares amounted to ISK 5 million at end of September 2010. The cost of the Share capital increase, less income tax effect, is deducted from Share premium, or the total amount of ISK 13 million.

The Company entered into option contracts with a few of its executives. The contracts allowed them to acquire Shares in the Company in the years 2007-2010 for seven million at nominal value at the price of ISK 14 per Share. The cost relating to the contracts, which is calculated according to the Black-Scholes method, was expensed in the contract period in the salaries and related expenses item and in an offsetting equity item.

The following table shows the changes in equity from 1 January to 30 September 2009 and 2010.

	Share capital	Share premium	Reserves	Accumulated deficit	Equity to Shareholders of the parent company	Non-controlling interest	Total equity
<b>Changes in equity from 1 Jan to 30 Sept 2010</b>							
Equity at 1.1.2010	275	1,084	1,139	(1,245)	1,253	11	1,264
Total comprehensive income for the period			(76)	206	130	2	132
Revaluation transferred			(7)	7	-	-	-
Issue of new Shares	120	707			827	-	827
<b>Equity on 30 Sept. 2010</b>	<b>395</b>	<b>1,791</b>	<b>1,056</b>	<b>(1,032)</b>	<b>2,209</b>	<b>14</b>	<b>2,223</b>
<b>Changes in equity from 1 Jan to 30 Sept 2009</b>							
Equity at 1.1.2009	276	1,097	464	105	1,942	22	1,964
Total comprehensive income for the period			736	(911)	(174)	(3)	(178)
Revaluation transferred			(5)	5	-	-	-
Stock options cost			10		10	-	10
Own Shares acquired	(1)	(14)			(14)	-	(14)
Purchase of non-controlling interest					-	(6)	(6)
Own Shares with put option not exercised			10		10	-	10
<b>Equity on 30 Sept. 2009</b>	<b>275</b>	<b>1,084</b>	<b>1,215</b>	<b>(801)</b>	<b>1,773</b>	<b>13</b>	<b>1,785</b>

### 6.3.7.2 2007-2009

The equity on 31 December 2009 totalled ISK 1,264 million compared to ISK 1,964 million on 31 December 2008. The decrease is mainly explained by the total comprehensive loss in the amount of ISK 686 million in 2009.

Total equity amounted to ISK 1,964 million at the end of 2008, which is an 11% increase from the beginning of the year. The increase is a result of a Share capital increase of ISK 986 million and own Shares sold in the amount of ISK 194 million. The total comprehensive loss for the year in the amount of ISK 771 million and dividend payment of ISK 135 million however partly offset the increase partly.

The Share capital increase in 2008 was related to the Company's acquisition of TM Software hf.

Expensed cost due to the option contracts in the amount of ISK 4 million was reversed in 2009 due to recalculations with regards to price and employees. Expensed cost due to the option contracts was ISK 13 million in 2008.

The following table shows the changes in equity from 1 January to 31 December for the three years 2007-2009.

	Share capital	Share premium	Reserves	Retained earnings (accum. Deficit)	Equity to Shareholders of the parent company	Non-controlling interest	Total equity
<b>Changes in equity from 1 Jan to 31 Dec 2009</b>							
Equity at 1.1. 2009	276	1,097	464	105	1,942	22	1,964
Total comprehensive loss for the year			675	(1,357)	(681)	(5)	(686)
Revaluation transferred			(7)	7	-	-	-
Own shares acquired	(1)	(14)			(14)	-	(14)
Stock options cost reversed			(4)		(4)	-	(4)
Minority in subsidiary acquired					-	(6)	(6)
Own Shares with put option not exercised			10		10	-	10
<b>Equity on 31 December 2009</b>	<b>275</b>	<b>1,084</b>	<b>1,139</b>	<b>(1,245)</b>	<b>1,253</b>	<b>11</b>	<b>1,264</b>
<b>Changes in equity from 1 Jan to 31 Dec 2008</b>							
Equity at 1.1. 2008	226	153	29	1,341	1,750	14	1,764
Total comprehensive loss for the year			422	(1,201)	(779)	7	(771)
Share capital increase	45	941			986	-	986
Own Shares acquired	(4)	(82)			(86)	-	(86)
Own Shares sold	9	185			194	-	194
Accrued cost due to option contracts			13		13	-	13
Transferred to retained earnings		(100)		100	-	-	-
Minority in subsidiary sold					-	0.3	0.3
Paid dividend (0.6 per Share)				(135)	(135)	-	(135)
<b>Equity on 31 December 2008</b>	<b>276</b>	<b>1,097</b>	<b>464</b>	<b>105</b>	<b>1,942</b>	<b>22</b>	<b>1,964</b>
<b>Changes in equity from 1 Jan to 31 Dec 2007</b>							
Equity at 1.1.2007	223	126	12	1,026	1,388	9	1,397
Total comprehensive profit for the year			(4)	416	412	4	416
Accrued cost due to option contracts			12		12	-	12
Own Shares acquired	(1)	(21)			(22)	-	(22)
Own Shares sold	3	48			52	-	52
Minority in subsidiary sold					-	2	2
Paid dividend (0.45 per Share)				(100)	(100)	(2)	(102)
Own Shares with put option not exercised			9		9	-	9
<b>Equity on 31 December 2007</b>	<b>226</b>	<b>153</b>	<b>29</b>	<b>1,341</b>	<b>1,750</b>	<b>14</b>	<b>1,764</b>

## 6.4 Cash flow statements - Statutory accounts

### 6.4.1 Cash flow statements for nine months of 2010 and 2009

The following table contains the audited consolidated cash flow statement for Nýherji as of 30 September 2010 and 30 September 2009.

<b>Consolidated cash flow statement</b>	<b>2010</b>	<b>2009</b>
<i>(ISK m)</i>	<i>9 m</i>	<i>9 m</i>
Net profit (loss) for the period	210	(914)
<i>Adjustments for:</i>		
Depreciation	216	152
Impairment losses on goodwill	-	180
Effect of bankrupt subsidiary	(246)	-
Net financial expenses	151	504
Income tax	(3)	70
<b>Working capital provided by operating activities</b>	<b>327</b>	<b>(9)</b>
Inventories, (increase) decrease	(22)	4
Trade and other receivables, (increase) decrease	(355)	205
Trade and other payables, decrease	(49)	(283)
<b>Net change in operating assets and liabilities</b>	<b>(425)</b>	<b>(74)</b>
Interest income received	7	24
Interest expenses paid	(125)	(209)
<b>Net cash used in operating activities</b>	<b>(217)</b>	<b>(269)</b>
Investment in property and equipment	(194)	(96)
Cash and cash equivalents of bankrupt subsidiary	(5)	-
Long-term notes, change	2	18
<b>Net cash used in investing activities</b>	<b>(197)</b>	<b>(78)</b>
Proceeds from issue of Share capital	196	-
Repurchase of own Shares	-	(14)
Repayment of long-term borrowings	(16)	(69)
Loans and borrowings, change	(17)	250
<b>Net cash provided by financing activities</b>	<b>163</b>	<b>166</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(252)</b>	<b>(181)</b>
<b>Effect of exchange rate fluctuations on cash held</b>	<b>(22)</b>	<b>16</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>385</b>	<b>468</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>112</b>	<b>302</b>

The net cash flow used in operating activities amounted to ISK 217 million in the first nine months of 2010 compared to ISK 269 million in the first nine months of 2009. The effect of the bankrupt subsidiary and the negative net change in operating assets and liabilities are the main reasons for the net cash used in the first nine months of 2010. The negative net change in operating assets and liabilities is mainly a result of increase in receivables as it takes the Company more days to collect revenue in 2010 than in 2009.

Net cash used in investing activities was ISK 197 million in the first nine months of 2010 compared to ISK 78 million in the first nine months of 2009. The investing activities mainly include investment in property and equipment of Skyggfir ehf. upplýsingaþjónusta. Investment in property and equipment amounted to ISK 194 million in the first nine months of 2010 compared to ISK 96 million in the first nine months of 2009.

In the first nine months of 2010, net cash provided by financing activities was ISK 163 million compared to ISK 166 million in the first nine months of 2009. Proceeds from the Share capital increase in the amount of ISK 196 million explains the net cash provided in the first nine months of 2010. Increase in loans and borrowings explain the net cash provided in 2009.

Net decrease in cash was ISK 64 million in the first nine months of 2010, which resulted in a cash position of ISK 321 million on 30 September 2010.

#### 6.4.2 Annual cash flow statements for 2007-2009

The following table contains the audited consolidated cash flow statement for Nýherji as of 31 December 2009, 31 December 2008 and 31 December 2007.

<b>Consolidated cash flow statement</b> <i>(ISK m)</i>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net (loss) profit for the year	(1,361)	(1,201)	420
<i>Adjustments for:</i>			
Depreciation	273	250	106
Impairment losses on goodwill	322	-	-
Gain (loss) on sale of assets and fair value adjustments of other companies	0.3	(3)	(15)
Net financial expenses	667	1,480	96
Income tax	37	(220)	88
<b>Working capital (used in) provided by operating activities</b>	<b>(62)</b>	<b>306</b>	<b>695</b>
Inventories, decrease, (increase)	10	47	(208)
Trade and other receivables, decrease (increase)	482	(836)	(748)
Trade and other payables, (decrease) increase	(249)	1,009	608
<b>Net change in operating assets and liabilities</b>	<b>243</b>	<b>220</b>	<b>(347)</b>
Interest income received	57	61	41
Interest expenses paid	(280)	(432)	(149)
Income tax paid	(16)	(76)	(83)
<b>Net cash (used in) provided by operating activities</b>	<b>(59)</b>	<b>79</b>	<b>156</b>
Investment in property and equipment	(127)	(282)	(169)
Proceeds from the sale of property and equipment	3	4	2
Acquisition of intangible assets	(45)	-	(221)
Acquisition of subsidiaries, net cash acquired	-	(1,165)	22
Long-term notes, change	20	(8)	34
<b>Net cash used in investing activities</b>	<b>(149)</b>	<b>(1,450)</b>	<b>(332)</b>
Proceeds from issue of Share capital	-	636	-
Repurchase of own Shares	(14)	(86)	(22)
Proceeds from sale of own Shares	-	194	52
Dividend paid	-	(135)	(102)
Repayment of long-term borrowings	(73)	(430)	(154)
Loans and borrowings, increase	191	1,459	252
<b>Net cash provided by in financing activities</b>	<b>104</b>	<b>1,638</b>	<b>24</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(104)</b>	<b>267</b>	<b>(151)</b>
<b>Effect of exchange rate fluctuations on cash held</b>	<b>21</b>	<b>83</b>	<b>(3)</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>468</b>	<b>118</b>	<b>272</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>385</b>	<b>468</b>	<b>118</b>

The net cash flow used in operating activities amounted to ISK 59 million in 2009 compared to 2008 and 2007 when net cash flow provided by operating activities was ISK 79 million and ISK 156 million. The loss in 2009 is the main reason for the net cash used by operating activities in 2009 despite the positive change in operating assets and liabilities as a result of decrease in receivables. Higher net financial expenses due to currency loss more than offset the loss in 2008, which explains the net cash provided by operating activities in 2008. The profit for the year 2007 mainly explains the net cash provided by operating activities in 2007 despite the net negative change in operating assets and liabilities as a result of increase in inventories and receivables.

Net cash used in investing activities was ISK 149 million in 2009 compared to ISK 1,450 million in 2008, and ISK 332 million in 2007. The investing activities include investment in property and equipment and acquisitions of subsidiaries.

Investment in property and equipment amounted to ISK 127 million in 2009 compared to ISK 282 million (ISK 194 million in computer hardware and ISK 88 million in equipment, fixtures and fittings) and ISK 169 million (ISK 81 million in computer hardware and ISK 88 million in equipment, fixtures and fittings) in 2008 and 2007 respectively.

In 2009, net cash provided by financing activities was ISK 104 million compared to ISK 1,638 million and ISK 24 million in 2008 and 2007 respectively. The investing activities in 2008 include the acquisitions of TM Software hf. and Marquardt & Partners AB. Financing activities include debt raised to fund the acquisitions and proceeds from sale of own Shares.

No dividends were paid in 2009, but in 2008 and 2007 the Company paid dividends in the amount of ISK 135 million and 102 million respectively.

The Company acquired own Shares from the Company's executives for ISK 14 million (nominal value 0.75 million) in 2009, for ISK 86 million (nominal value 4 million) in 2008 and for ISK 22 million (nominal value 1 million) in 2007.

Net decrease in cash was ISK 104 million in 2009, which resulted in a cash position of ISK 385 million at end of the year.

## **6.5 Investments and divestments**

At the end of March 2007 the Group acquired all shares in Linkur ehf. The company became a part of Nýherji on 1 April 2007. Subsequently, Nýherji took over the Sony Centre in Kringlan Shopping mall. These investments were immaterial and paid in cash.

In May 2007 the Group acquired all of the shares in Dansupport A/S. The acquisition price of ISK 195 million was paid with cash. Part of the acquisition price was paid in 2008, or ISK 63 million. The company became part of Nýherji on 1 May 2007.

In January 2008, the Group acquired all of the shares in Marquardt & Partners AB. The acquisition price of ISK 357 million was settled with cash, but part of the acquisition price, or ISK 77 million, was paid in 2010. The company became part of Nýherji on 1 February 2008.

In 2008, the Group acquired all of the shares in TM Software hf. The acquisition price was ISK 1,417 million, where ISK 1,068 million was paid with cash and ISK 350 million with the issue of new Shares. The company became a part of Nýherji on 1 February 2008.

In 2009, the Company sold the operations of the consultancy firm ParX ehf. to PriceWaterhouseCoopers hf. The divestment was immaterial and was settled by takeover of liabilities.

## 7. SHARES AND SHAREHOLDERS

### 7.1 Total issued Shares and authorised Share increase

The total issued Shares in Nýherji hf. amounts to 307,999,999 Shares on 16 December 2010, all fully paid. Thereof, the Issuer holds 3,849,224 own Shares.<sup>18</sup> Own Shares are all held by the parent company. By law the Company's own Shares do not carry voting rights and are therefore not active. Shares issued by the Company are all of same class and not issued in different classes. All active Shares have the same rights, including voting rights. On 16 December 2010 there were 277 Shareholders in Nýherji hf.

The Issuer's board of directors decided on 30 August 2010, subject to a number of conditions, to increase the Issuer's Shares by 120,000,000 in accordance with its authorisation in Article 2.1 of the Issuer's Articles of Association as of 19 February 2010. The 120,000,000 new Shares were subscribed for by 9 investors in September 2010 at the price rate ISK 7.00 per Share or for a total price of ISK 840,000,000. The 23% of the total purchase price was paid in September and the remaining 77% is to be paid in December. The Share increase was made public on 29 September 2010, which was as soon as possible due to the conditions which the increase was subject to. The first 27,999,999 Shares of the increase were issued on 30 September 2010, which increased the total issued Shares to the current status of 307,999,999 Shares, and were admitted to trading on 8 October 2010. The board of directors intends to issue the remaining 92,000,001 Shares of the increase on 20 December 2010, which will further raise the number of total issued Shares further from 307,999,999 Shares to 400,000,000. These 92,000,001 New Shares are expected to be admitted to trading on 22 December 2010, but the date will be made public at least one day in advance by NASDAQ OMX Iceland. These New Shares are granted rights within the Issuer as of the date of registration of the increase of Share capital which is expected to be the same as issue date.

As Shareholders in the Company waived their pre-emptive rights in respect of any of the 120,000,000 new Shares, the proportional holdings of other Shareholders is diluted by 30% (calculated as a percentage of the total issued Shares past the intended issue of the New Shares) by the issue of these 120,000,000 new Shares.

Shareholders have not decided or authorised any further increase of Shares in the Company than described above.

### 7.2 Principal Shareholders

To the knowledge of the Issuer, one Shareholder holds more than 10% of the active Shares in Nýherji hf. as of 16 December 2010 prior the intended issue of the 92,000,001 New Shares and five other Shareholders hold more than 5%. The 5% is the first notification threshold of major holdings under the Act no. 108/2007 on Securities Transactions.<sup>19</sup> These are Vænting hf. with 26.3% of active Shares and Áning-fjárfestingar ehf., Gildruklettur ehf., Stafir lífeyrissjóður, Lífeyrissjóður verslunarmanna and ALMC hf., each with 5.2-9.8% of active Shares. These six largest shareholders own a total of 59.1% of the active Shares.

When adjusted to the issue of the 92,000,001 New Shares, one Shareholder holds more than 10% of active Shares and that is Vænting hf., still the largest Shareholder, with 20.2% of adjusted active Shares. Five Shareholders hold more than 5% of the adjusted active Shares in Nýherji hf. post the intended issue of the New Shares. These are Stafir lífeyrissjóður, Lífeyrissjóður verslunarmanna, Áning-fjárfestingar ehf.,

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<sup>18</sup> 3,849,224 Shares are registered under the name of Issuer, but thereof 50,000 Shares fully paid by investors who have not made necessary arrangements to receive the Shares

<sup>19</sup> See item 1 of Art. 78 in the Act where it is stated: "Where a holder of shares acquires or disposes of shares of an issuer whose shares have been admitted to trading on a regulated market, a notification shall be sent in a verifiable manner to the issuer in question and to the Financial Supervisory Authority if, as a result of the acquisition or disposal, the proportion of voting rights of the holder of shares reaches, exceeds or falls below the thresholds of: 5, 10, 15, 20, 25, 30, 35, 40, 50, 66 2/3 and 90%. "Holder of shares" shall mean any natural or legal person directly or indirectly holding: 1. Shares in the issuer in its own name and on its own account; 2. Shares in the issuer in its own name but on behalf of another natural person or legal person; or 3. Depository receipts, in which case the holder of the depository receipt shall be considered as the holder of the underlying shares represented by the depository receipt."

Vátryggingafélag Íslands hf. and Gildruklettur ehf. with 5.2-9.8% each. These six largest Shareholders own a total of 58.8% of the active Shares when adjusted to the intended Share issue.

Share registry 16 December 2010				Adjusted to 92,000,001 New Shares			
Shareholder	Shares	% holding and voting		Shareholder	Shares	% holding and voting	
Vænting hf.	79,857,172	25.9	26.3	Vænting hf.	79,857,172	20.0	20.2
Áning-fjárfestingar ehf.	29,723,031	9.7	9.8	Stafir lífeyrissjóður	38,904,762	9.7	9.8
Gildruklettur ehf.	20,581,725	6.7	6.8	Lífeyrissjóður verslunarm.	37,571,429	9.4	9.5
Stafir lífeyrissjóður	17,476,190	5.7	5.7	Áning-fjárfestingar ehf.	29,723,031	7.4	7.5
Lífeyrissjóður verslunarm.	16,142,857	5.2	5.3	Vátryggingafélag Íslands hf.	26,250,001	6.6	6.6
ALMC hf.	15,902,553	5.2	5.2	Gildruklettur ehf.	20,581,725	5.1	5.2
Fiskveiðahlutafél. Venus hf.	14,032,816	4.6	4.6	ALMC hf.	15,902,553	4.0	4.0
Benedikt Jóhannesson	12,384,363	4.0	4.1	Fiskveiðahlutafél. Venus hf.	14,032,816	3.5	3.5
Benedikt Sveinsson	10,699,791	3.5	3.5	Benedikt Jóhannesson	12,384,363	3.1	3.1
Den Danske Bank A/S	8,548,600	2.8	2.8	Söfn.sjóður lífeyrisréttinda	11,000,000	2.8	2.8
<b>10 largest total</b>	<b>225,349,098</b>	<b>73.2</b>	<b>74.1</b>	<b>10 largest total</b>	<b>286,207,852</b>	<b>71.6</b>	<b>72.2</b>
Hrómundur ehf.	7,734,704	2.5	2.5	Sameinaði lífeyrissjóðurinn	10,714,285	2.7	2.7
Vátryggingafél. Íslands hf.	6,250,000	2.0	2.1	Benedikt Sveinsson	10,699,791	2.7	2.7
Þórður Sverrisson	6,180,107	2.0	2.0	Den Danske Bank A/S	8,548,600	2.1	2.2
Jafet Ólafsson	5,475,205	1.8	1.8	Hrómundur ehf.	7,734,704	1.9	2.0
Hólmur ehf.	5,020,000	1.6	1.7	Landssjóður hf,úrvalsbréf	7,392,857	1.8	1.9
Vigdís Jónsdóttir	4,489,852	1.5	1.5	Þórður Sverrisson	6,180,107	1.5	1.6
Almenni lífeyrissjóðurinn	3,333,334	1.1	1.1	Jafet Ólafsson	5,475,205	1.4	1.4
Einar Sveinsson	3,051,278	1.0	1.0	Hólmur ehf.	5,020,000	1.3	1.3
Audur Invest Holding SA	2,978,480	1.0	1.0	Vigdís Jónsdóttir	4,489,852	1.1	1.1
Söfn.sjóður lífeyrisréttinda	2,750,000	0.9	0.9	Stefnir - Ís-15	3,798,870	0.9	1.0
<b>20 largest total</b>	<b>272,612,058</b>	<b>88.5</b>	<b>89.6</b>	<b>20 largest total</b>	<b>356,262,123</b>	<b>89.1</b>	<b>89.9</b>
257 other total	31,538,717	10.2	10.4	257 other total	39,888,653	10.0	10.1
<b>277 voting Shareh. total</b>	<b>304,150,775</b>	<b>98.8</b>	<b>100</b>	<b>277 voting Shareh. total</b>	<b>396,150,776</b>	<b>99.0</b>	<b>100</b>
Nýherji hf. - Own Shares*	3,849,224	1.2		Nýherji hf. - Own Shares*	3,849,224	1.0	
<b>Total issued Shares</b>	<b>307,999,999</b>	<b>100</b>		<b>Total issued Shares</b>	<b>400,000,000</b>	<b>100</b>	

\* 3,849,224 Shares are registered under the name of Issuer, but thereof 50,000 Shares fully paid by investors who have not made necessary arrangements to receive the Shares

Vænting hf. is owned by Vogun hf. (99.9%) which is owned by Hvalur hf. (98%). Hvalur is owned by Fiskveiðihlutafélagið Venus hf. (39.5%) and others (60.5%). Fiskveiðihlutafélagið Venus hf. is owned by Birna Loftsdóttir (21%), Kristján Loftsson (21%), Árni Vilhjálmsson, board member, (12.5%), Kristín Vilhjálmisdóttir (12.5%), Sigríður Vilhjálmisdóttir (12.5%) and others (20.5%). Kristján Loftsson is the CEO of Vænting hf. (26.3/20.2%) and the chairman of the board of Fiskveiðihlutafélagið Venus hf. (4.6/3.5%). The CEO of the latter named company is Ingibjörg Björnsdóttir and her husband is Árni Vilhjálmsson (0.0/0.9%) which is the chairman of the board of Vænting hf.

Lífeyrissjóður verslunarmanna (LIVE) and Stafir lífeyrissjóður (Stafir) are Icelandic pension funds. According to information from the Icelandic Pension Fund Association (website [www.ll.is](http://www.ll.is)), LIVE (5.3/9.5%) is the second largest pension fund in Iceland with ISK 283 billion in assets under management in the year end 2009. And according to the same source, Stafir (5.7/9.8%) is the seventh largest pension fund in Iceland with ISK 80 billion in assets under management in the year end 2009.

Áning-fjárfestingar ehf. is owned by Benedikt Jóhannesson, chairman of the board, (25%), Einar Sveinsson (25%), Halldór Teitsson (25%) and Þórður Sverrisson, CEO, (25%). Gildruklettur is owned by Einar Sveinsson (33.34%), Benedikt Jóhannesson, chairman of the board, (33.33%) and Halldór Teitsson (33.33%). Einar Sveinsson (1.0/0.8%) is the chairman of the board of Áning-fjárfestingar ehf. (9.8/7.5%) and the chairman and CEO of Gildruklettur ehf. (6.8/5.2%) and Hrómundur ehf. (2.5/2.0%). The CEO of Áning-fjárfestingar ehf. is Benedikt Jóhannesson (4.1/3.1%) and his wife is Vigdís Jónsdóttir (1.5/1.1%).

Vátryggingafélag Íslands hf. (2.1/6.6%) is the largest insurance company in Iceland. Its owner is Exista ehf. which has entered into a composition agreement, ratified by the District Court of Reykjavík, and is now fully owned by its creditors.

ALMC hf. is owned by NBI hf. (3.72%) and others (96.28%).

Information of the holdings of the Issuer's board of directors and senior management and related parties to the Issuer's board of directors and senior management are to be found in the chapter "5. Administrative, management, supervisory bodies, senior management and employees".

The Company has no knowledge of any agreement between the Shareholders on the treatment of voting rights, but investors are advised to study any relationships between some of the largest shareholders. The Issuer is not aware of any arrangements which may at a subsequent date result in a change of control. As far as the Issuer is aware, it is not directly or indirectly owned or controlled by any person or connected persons. The Issuer is not aware of any agreement or arrangement between its Shareholders that would constitute any agreement or arrangement between parties to act in concert with regard to the affairs of the Issuer. Minority interests are safeguarded by the provisions of Act no. 2/1995 respecting Public Limited Companies and the Issuer's Articles of Association.

### 7.3 Development of the issued Shares

The following table outlines the development of the Issuer's total issued Shares from 1 January 2007 to the date of this Share Registration Document and includes the intended Share increase.

<b>Total issued Shares</b>				
Date	Transaction	Change	Rate	Issued Shares
<b>01 Jan 2007</b>	<b>Balance</b>			<b>248,000,000</b>
16 Jan 2007	Share decrease - through own Shares	13,000,000		235,000,000
<b>31 Dec 2007</b>	<b>Balance</b>			<b>235,000,000</b>
28 Feb 2008	Share increase - new Shares sold to fund acquisition of TM Software hf.	45,000,000	22.00	280,000,000
<b>31 Dec 2008</b>	<b>Balance</b>			<b>280,000,000</b>
<b>31 Dec 2009</b>	<b>Balance</b>			<b>280,000,000</b>
30 Sep 2010	Share increase - new Shares sold to investors in connection with refinance	27,999,999	7.00	307,999,999
<b>17 Dec 2010</b>	<b>Status</b>			<b>307,999,999</b>
<i>December 2010</i>	<i>Intended Share increase - New Shares sold to investors in connection with refinance</i>	<i>92,000,001</i>	<i>7.00</i>	<i>400,000,000</i>

### 7.4 Dividend policy

The board of directors of Nýherji has followed the policy of paying one-third of profits to the Issuer's Shareholders in the form of a dividend. At the 19 February 2010 AGM, it was agreed not to pay dividend for

the year 2009. At the 6 February 2009 AGM, it was agreed, in consultation with creditors, to pay no dividend for the year 2008. At the 25 January 2008 AGM, a motion was approved to pay ISK 0.6 per Share as dividend to Shareholders for the 2007 operating year, following which just over ISK 135 million were paid to Shareholders on 29 February 2008.

The Company's loan agreements contain restrictions on the payment of dividends, unless the financial covenants in the loan agreements are fulfilled and it is foreseen that these covenants will be met in the Company's forecast for the following 12 months after the dividend payment.

## **7.5 Provisions in brief regarding Shareholders' right**

### **7.5.1 Share capital**

Shareholders' meetings may decide on an increase in the Share capital of the Company, whether through subscription to new Shares or through the issue of bonus Shares, based on the rules that apply to the amendment of the Issuer's Articles of Association. Shareholders have pre-emptive rights to increased Share capital in proportion to their holdings in the Company. If a Shareholder does not exercise all of his right to subscribe, other Shareholders are entitled to an increased right to subscription. The Shareholders' pre-emption rights may be waived by the Shareholders by a resolution passed with the approval both of 2/3 of the votes cast and Shareholders controlling at least 2/3 of the Shares in the Company represented at the meeting, cf. Article 34 of the Act no. 2/1995 respecting Public Limited Companies.

According to the Issuer's Annual General Meeting on 19 February 2010, the board of directors may purchase up to 10% of the Company's own Shares. The Shares' purchase price may deviate by up to +/-20% from the market price of the Shares registered on the NASDAQ OMX Iceland. No limit is set on this authorisation regarding the number of Shares purchased each time. The board of directors' authorisation to purchase own Shares can only be valid for 18 months at a time and this authorisation is valid for 18 months counting from 19 February 2010.

According to Article 104 of the Act no. 2/1995 respecting Public Limited Companies, the Company is not permitted to grant credit, pledge or guarantee against Share purchase in the Company, except in the case of employees or related companies purchasing Shares.

The Shares are issued electronically at the Icelandic Securities Depository (Verðbréfaskráning Íslands hf.), pursuant to the Act no. 131/1997 on Electronic Registration of Title to Securities. Once a Shareholder has paid in his share in full to the Company, he shall be issued an electronic certificate in a securities depository and a registered title which confers on him the full rights provided for in the Issuer's Articles of Association. Transfer of Shares becomes effective at registration with the securities depository.

#### **7.5.1.1 Action necessary to change the rights of Shareholders**

The Shareholders are obligated, without any separate declarations from them, to respect the provisions of the Issuer's Articles of Association as presently adopted or as subsequently altered by lawful amendment. Shareholders shall not, neither with the Issuer's Articles of Association nor with any amendments to them, be obliged to increase their shareholding in the Issuer or be subject to redemption of their Shares.

The Shareholders are not liable for the obligations of the Issuer in excess of their Shareholding in the Issuer unless the Shareholders agree to such liability through a separate acknowledgement. According to article 2.6 in the Company's Articles of Association the above mentioned provisions cannot be amended or abolished through any resolution of a Shareholders' meeting.

#### **7.5.1.2 Disclosure requirements**

As Nýherji's Shares are traded on the Main Market of NASDAQ OMX Iceland, the Company is subject to the disclosure requirements set out in Act no. 108/2007 on Securities Transactions, government regulations and Rules for Issuers of Financial Instruments listed on the NASDAQ OMX Iceland. Act no. 108/2007 on Securities Transactions stipulates for example rules that apply to changes in the ownership of substantial holdings in a company which has had one or more classes of its Shares admitted to trading on a regulated

securities market (listed company). According to the Act, a substantial holding is 5% of voting rights or the nominal value of Share capital, and multiples thereof of up to 40%, as well as 50%, 66.67% and 90%. When a party acquires a substantial holding, or increases a holding to exceed these limits, or reduces a holding to fall below these limits, the party must immediately give notice to the FME and to the Company.

#### **7.5.1.3 Publication of information**

Since the Company's Shares are admitted to trading on the Main Market of NASDAQ OMX Iceland, any information that in the opinion of the Issuer could have a significant impact on the market price of its securities is to be made publicly available in the European Economic Area in accordance with governing rules, regulations and legislation effective at the time. Publication of information is subject to provisions of the Act no. 108/2007, on Securities Transactions and Regulation no. 707/2008, on Provision of Information and Notification Requirements in accordance with Act no. 108/2007 on Securities Transactions.

#### **7.5.1.4 Tax issues**

The Shares in the Company are subject to taxation according to law in effect at any given time. Investors are advised to seek external tax advice on the tax implications of any investment in the Shares.

The Issuer's Shares are subject to stamp duty in Iceland, amounting to 0.5% of the Shares' nominal value, which the Issuer shall pay within two months from the issue of the Shares. Stamp duty has been paid for all 307,999,999 issued Shares. Stamp duty for the 92,000,001 New Shares intended to issue on 20 December 2010 is to be paid within two months from issue date.

The Issuer is obliged to retain PAYE taxes on dividend payments, according to Article 3, paragraph 2 and Article 5, paragraph 4, of Act no. 94/1996 on Withholding of Tax on Financial Income. For Icelandic parties other than those exempt from PAYE tax on capital earnings, the PAYE tax is a final taxation. As regards parties living abroad, it must be established whether there is a double taxation agreement with the state where the party in question resides and, if so, it must be established whether there is any taxation payable in addition to that in Iceland.

Profit from the sale of Shares in the Company is taxable in Iceland. As regards parties living abroad, it must be established whether there is a double taxation agreement with the state where the party in question resides and, if so, it should be determined which state has the right of taxation.

Shares in the Company fulfil the conditions of item 1 of section B of Article 30 of Act on Income Tax no. 90/2003, with subsequent amendments. That provision contains rules concerning the deductibility of increased investments in Shares before the end of 2002 from the income tax base.

#### **7.5.2 Shareholders' meetings**

At Shareholders' meetings each share carries one vote. It is not permitted to exercise voting rights for the Company's own Shares.

A Shareholders meeting shall be called with at least three weeks' notice (requirement for listed companies according to Companies Act) and with maximum four weeks' notice (according to Companies Act). Shareholders shall be notified of a Shareholders meeting with an advertisement published in widespread newspapers or by means of other provable manner and the notification shall be made publicly available in the European Economic Area. The Annual General Meeting shall be held before end of June each year, which is within six months from the end of each fiscal year.

The right to attend Shareholders' meeting have Shareholders, their representatives and advisors of the Shareholders. A Shareholder may have his representative attend a Shareholders' meeting on his behalf. A representative shall then submit a dated power of attorney in writing of which the date shall be maximum one year prior to the meeting. Such power of attorney can be validly revoked at any time.

As a listed company, the Issuer is in duty bound to afford Shareholders an opportunity of casting votes on a Shareholders' meeting by letter or electronically, without being present.

### **7.5.3 Board of directors**

The Annual General Meeting shall annually elect three persons and one in reserve to the board of directors. The eligibility is subject to Icelandic law. The election of the board of directors shall be as follows:

Persons willing to become members of the board of directors shall inform the board of directors in writing at least seven days before the Shareholders' meeting and provide information required by the Companies Act. The eligibility is limited to the above procedure. In a Shareholders' meeting the process is limited voting, that is only those who have declared their candidacy with necessary notice can be elected. Information on candidates for the board of directors shall be available at the Company's office no later than two days prior to the Shareholders' meeting. A proportional voting or cumulative voting shall be used for the voting if Shareholders holding at least 1/10 (one tenth) of active Shares request. Such a request shall be submitted to the Company's board of directors at least five days before the Shareholders' meeting. In case of both a proportional and cumulative voting is requested, then the board shall be voted by a cumulated voting.

The board of directors shall elect a chairman and vice-chairman among its members and shall otherwise divide tasks among themselves as it deems appropriate.

The board of directors wield the supreme power in the Company between Shareholders' meetings. The board sets out the operational objectives of the Company while safeguarding the Company's and its Shareholders' interests. The majority of the board of directors can bind the firm.

## **8. NOTICE TO INVESTORS AND INFORMATION ON DOCUMENT**

### **8.1 Notice to investors**

This document constitutes a Share Registration Document for the purposes of the Act no. 108/2007, on Securities Transactions and of Directive 2003/71/EC of the European Parliament and of the Council of the European Union (the “European Prospectus Directive”) on the prospectus to be published when securities are offered to the public or admitted to trading, and of Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council 4 November 2003. The Commission's Regulation has been adopted into Icelandic law by Icelandic Regulation No 243/2006 on the transposition of Commission Regulation (EC) No 809/2004 implementing Directive 2003/71/EC as regards information contained in prospectuses etc.

The NASDAQ OMX Iceland hf. has scrutinized and approved the relevant prospectus according to an agreement with the the Financial Supervisory Authority (FME) in Iceland.<sup>20</sup>

Any financial information more recent than 31 December 2009 (and information based on financial information more recent than 31 December 2009) which is provided in this Share Registration Document is not based on audited accounts, but based on information provided by the Issuer's management, which includes the Issuer's reviewed financial statements for the first 9 months 2010.

Information in this Share Registration Document or other documents which together form a prospectus should not be considered or construed as a promise by the Issuer, Manager or other parties, of future success in either operations or return on investment. Investors are reminded that investing in securities entails risk as the decision to invest is based on expectations and not promises. Investors must primarily rely on their own judgement regarding any decision to invest in the securities issued by Nýherji hf., bearing in mind the business environment in which the Issuer operates, anticipated profits, external conditions, and the risk inherent in the investment itself. Prospective investors are advised to contact independent experts such as financial institutions to assist them in their assessment of securities issued by Nýherji as an investment opportunity. Investors are advised to consider their legal status and any tax implications, which a purchase of securities issued by Nýherji hf. may have, and seek independent advice in that respect.

Since Nýherji's Shares are admitted to trading on the Main Market of NASDAQ OMX Iceland, any information that in the opinion of the Issuer could have a significant impact on the market price of its securities is to be made publicly available in the European Economic Area in accordance with governing rules, regulations and legislation effective at the time. Publication of information is subject to provisions of the Act no. 108/2007, on Securities Transactions and a Regulation no. 707/2008, on Provision of information and notification requirements in accordance with Act no. 108/2007 on Securities Transactions.

### **8.2 Documents incorporated by reference and on display**

This Share Registration Document is only published in English.

This Share Registration Document is only published electronically and not as a hard copy. For the next twelve months counting from the date of this Share Registration Document, copies of the Summary, the Share Securities Note and the Share Registration Document who form a prospectus can be obtained from the Issuer's website ([www.nyherji.is](http://www.nyherji.is)).

The Issuer will, in the event of any significant new factor, before the securities, which the prospectus (which this Share Registration Document is a part of) relates to, are admitted to trading on NASDAQ OMX Iceland, material omission or inaccuracy relating to information included in the prospectus which can affect the assessment of the relevant securities, prepare a supplement to the prospectus in accordance with Article 46

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<sup>20</sup> In accordance with an agreement dated 10 December 2009, between the FME and the NASDAQ OMX Iceland on scrutinising and approval of prospectuses and public listing of securities, in which i.e. FME entrusts the NASDAQ OMX Iceland with the approval of prospectuses for securities which are to be traded on the NASDAQ OMX Iceland and with public listing of securities.

of Act no. 108/2007 on Securities Transactions. Within 12 months of this Share Registration Document's date, the Issuer may use this Share Registration Document as a part of a prospectus with a later date, in the event of an issue of new securities, and will then if applicable include to that prospectus an update of information provided in this document. If a supplement is prepared, statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Share Registration Document or in a document on display. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this document.

The following documents shall be deemed to be incorporated by reference to this Share Registration Document and to form a part of this Share Registration Document. For the next twelve months counting from the date of this Share Registration Document, copies of documents incorporated by reference herein can be obtained from the Issuer's website ([www.nyherji.is](http://www.nyherji.is)) and hard copies of these documents can be obtained from the Issuer's headquarters at Borgartún 37, 105 Reykjavík, Iceland.

- a. Reviewed consolidated financial statements of Nýherji as at and for the nine months ended 30 September 2010
- b. Audited consolidated financial statements along with the annual report of Nýherji hf. as at and for the year ended 31 December 2009
- c. Audited consolidated financial statements along with the annual report of Nýherji hf. as at and for the year ended 31 December 2008
- d. Audited consolidated financial statements along with the annual report of Nýherji as at and for the year ended 31 December 2007

For the next twelve months copies of the Issuer's Articles of Association, dated 30 September 2010, and the valid Articles of Association at any time after that date, can be obtained from the Issuer's website ([www.nyherji.is](http://www.nyherji.is)) and hard copies can be obtained from the Issuer's headquarters at Borgartún 37, 105 Reykjavík, Iceland.

### **8.3 Confirmation relating to third party information**

Information obtained from third party has been accurately reproduced, and as far as the Issuer is aware and able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Sources are provided for all third party information used in this Share Registration Document, where applicable.

### **8.4 References and glossary of terms and abbreviations**

References to the "Issuer", "Nýherji hf.", "Nýherji", the "Company" and the "Group" in this Share Registration Document shall be construed as referring to Nýherji hf., Icelandic ID-No. 530292-2079, registered office at Borgartún 37, 105 Reykjavík, Iceland, including its subsidiaries as it is composed at any relevant time unless otherwise clear from the context. References to the "management" in this Share Registration Document shall be construed as referring to the management of Nýherji.

References to the "AppliCon" in this Share Registration Document shall be construed as referring to AppliCon Holding ehf., Icelandic ID-No. 471105-1040, registered office at Borgartún 37, 105 Reykjavík, Iceland, including its subsidiaries as it is composed at any relevant time unless otherwise clear from the context.

References to the "NASDAQ OMX Iceland" in this Share Registration Document shall be construed as referring to the NASDAQ OMX Iceland hf., Icelandic ID-No. 681298-2829, registered office at Laugavegur 182, 105 Reykjavík, Iceland, unless otherwise clear from the context. References to the "admission to trading" and the "admission to trading on a regulated market" in this Share Registration Document shall be construed as referring to the admission to trading on the Main Market of NASDAQ OMX Iceland hf., unless otherwise clear from the context. Reference to "listed shares" in this Share Registration Document shall be

construed as referring to shares that have been admitted to trading at any regulated market<sup>21</sup>, unless otherwise clear from the context.

References to the “FME” in this Share Registration Document shall be construed as referring to the Icelandic Financial Supervisory Authority, registered office at Suðurlandsbraut 32, 108 Reykjavík, Iceland, unless otherwise clear from the context.

References to “Arion Bank” and the “Bank” in this Share Registration Document shall be construed as referring to Arion Bank hf., Icelandic ID-No. 581008-0150, with its registered office at Borgartún 19, 105 Reykjavík, Iceland, unless otherwise clear from the context. References to the “Manager” in this Share Registration Document shall be construed as referring to Arion Bank – Corporate Advisory, which is a division of the Bank.

References to the “Shares” in this Share Registration Document shall be construed as referring to any shares in Nýherji hf. References to the “New Shares” in this Share Registration Document shall be construed as referring to 92,000,001 New Shares in Nýherji hf. expected to be issued on 20 December 2010 which will increase the total issued Shares in the Company from 307,999,999 Shares (as at the date of this Share Registration Document) to 400,000,000. The New Shares are expected to be admitted to trading on the Main Market of NASDAQ OMX Iceland on 22 December 2010. The date when the New Shares will be admitted to trading will be made public at least one day in advance by NASDAQ OMX Iceland.

Other abbreviations than mentioned above, used in this Share Registration Document are listed in the following table:

<i>AGM</i>	Annual General Meeting
<i>AppliCon Sweden</i>	Application Consulting Sweden AB
<i>CEO</i>	Chief Executive Officer
<i>CFO</i>	Chief Financial Officer
<i>Dansupport</i>	Dansupport A/S
<i>EBITDA</i>	Earnings Before Interest, Taxes, Depreciation and Amortisation
<i>ECOMMERCE</i>	Electronic commerce
<i>EMR</i>	eMR hugbúnaður ehf.
<i>ISK</i>	Icelandic króna
<i>IT</i>	Information Technology
<i>Klak</i>	Klak ehf.
<i>MD</i>	Managing Director
<i>SD</i>	Sales Director
<i>Sense</i>	Sense ehf.
<i>SimDex</i>	SimDex ehf.
<i>Skygggnir</i>	Skygggnir ehf. upplýsingaþjónusta
<i>TM Software Origo</i>	TM Software Origo ehf.
<i>Viðja</i>	Viðja viðskiptaumsjón ehf.
<i>Vigor</i>	Vigor ehf.

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<sup>21</sup> Regulated market as referred to in EU Directive 2003/71/EC of the European Parliament and the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements and as defined by Article 1(13) of Directive 93/22/EEC. EU Directive 2003/71/EC was implemented with Commission Regulation (EC) No. 809/2004 of 29 April 2004. The Commission's Regulation has been adopted into Icelandic law by Icelandic Regulation no. 243/2006.

## **8.5 Manager and legal matters**

Arion Bank hf. – Corporate Advisory acts as the Manager of the arrangement for the admission to trading of the Issuer’s 90,000,001 New Shares on the Main Market of NASDAQ OMX Iceland hf., which this Share Registration Document relates to. The Manager has been the advisor to the Issuer in the preparation of this Share Registration Document and has in consultation with the management and the board of directors of the Issuer compiled this Share Registration Document, which is based on information gathered from the Issuer.

Attention is drawn to the following interests of the Issuer and the Bank. Arion Bank hf. – Corporate Banking is the Issuer’s largest creditor. Stefnir – Ís-15, a mutual fund managed by Stefnir hf. which is an asset management company and a subsidiary of Arion Bank hf., holds 1,173,870 Shares in Nýherji hf. as of 16 December 2010 and has committed to purchase 2,625,000 New Shares.

Tómas Jónsson, supreme court attorney, at Reykjavík Law Firm (Lögfræðistofa Reykjavíkur ehf., Icelandic ID-No. 560500-2890), with its registered office at Borgartún 25, 105 Reykjavík, Iceland has advised the Issuer as to Icelandic law on legal matters in connection with issues related to the 120,000,000 Share increase described in this Share Registration Document.

## **8.6 Persons responsible**

*Nýherji hf., in its capacity as the Issuer, with Icelandic ID-No. 530292-2079, registered office at Borgartún 37, 105 Reykjavík, Iceland, hereby declares that having taken all reasonable care to ensure that such is the case, the information contained in this Share Registration Document is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.*

*Reykjavík, 17 December 2010*

***On behalf of the Issuer***

***Benedikt Jóhannesson***

*Chairman of the board*

***Þórður Sverrisson***

*CEO*

