Advania hf.

Condensed Consolidated
Interim Financial Statements
for the six months ended 30 June 2013
ISK

Advania hf.
Guðrúnartún 10
105 Reykjavík

Reg. no. 590269-7199

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Endorsement and Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements of Advania hf. for the six months ended 30 June 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) for Interim Financial Statements (IAS 34). The interim financial statements comprise the condensed consolidated interim financial statements of Advania hf. and its subsidiaries, together referred to as the "Group". The Group operates in the IT sector.

According to the consolidated statement of comprehensive income, profit for the period from 1 January to 30 June 2013 amounted to ISK 247 million. Total comprehensive income for the period amounted to ISK 67 million. According to the statement of financial position, equity at the end of the period amounted to ISK 1,886 million, including share capital in the amount of ISK 564 million. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity.

Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements of Advania hf. for the six months ended 30 June 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

According to our best knowledge it is our opinion that the condensed consolidated interim financial statements give a true and fair view of the consolidated financial performance of the Company for the six month period ended 30 June 2013, its assets, liabilities and consolidated financial position as at 30 June 2013 and its consolidated cash flows for the period then ended.

The Board of Directors and the CEO have today discussed the condensed consolidated interim financial statements of Advania hf. for the six months ended 30 June 2013 and confirm them by means of their signatures.

Reykjavík, 29 August 2013

The Board of Directors:

CEO:

Report on review of interim financial information

To the Board of Directors of Advania hf.

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Advania hf. as at 30 June 2013, and the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 *"Interim Financial Reporting"*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2013 is not prepared, in all material respects, in accordance with IAS 34 *"Interim Financial Reporting"*.

Reykjavík, 29 August 2013

KPMG ehf.

Margret G. Flóvenz

Hlynur Sigurðsson

Condensed consolidated statement of comprehensive income for the six months ended 30 June 2013

	Note	2013 1.1.-30.6	2012 1.1.-30.6
Sales		13,631	12,954
Cost of sales		(10,479)	(10,069)
Gross profit		3,152	2,885
Other income	6	547	0
Sales expenses		(1,240)	(1,227)
Administrative expenses		(1,975)	(1,808)
Curtailment of defined benefit scheme	7	0	(183)
Results from operating activities		484	(333)
Finance income		20	16
Finance expenses		(295)	(262)
Net finance costs	8	(275)	(246)
Profit (loss) before income tax		209	(579)
Income tax expense	9	38	(1)
Profit (loss) for the period		247	(580)
Other comprehensive income:			
Currency translation difference of foreign operations		(180)	62
Total recognised income (expense) for the period		67	(518)

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Condensed consolidated statement of financial position as at 30 June 2013

	Notes	30.6.2013	31.12.2012
Assets:			
Operating assets		1,570	1,348
Intangible assets		6,773	7,134
Long term receivables		301	160
Deferred tax asset		678	744
Total non-current assets		9,322	9,386
Assets classified as held for sale	14	324	290
Inventories		391	384
Trade and other receivables		5,789	6,573
Cash and cash equivalents		259	443
Total current assets		6,763	7,690
Total assets		16,085	17,076
Equity:			
Share capital		564	564
Share premium		596	596
Reserves		479	659
Retained earnings		247	0
Total equity		1,886	1,819
Liabilities:			
Loans and borrowings	10	6,153	6,561
Provisions		179	179
Deferred tax liability		57	107
Total non-current liabilities		6,389	6,847
Loans and borrowings	10	1,149	787
Trade and other payables		4,919	5,917
Deferred income		1,300	1,228
Provisions		183	220
Liabilities classified as held for sale	14	259	258
Total current liabilities		7,810	8,410
Total liabilities		14,199	15,257
Total equity and liabilities		16,085	17,076

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Condensed consolidated statement of changes in equity for the six months ended 30 June 2013

	Share capital	Share premium	Reserves	Retained earnings	Total equity
Balance at 1 January 2012	554	1,189	274	1,489	3,506
Total comprehensive income:					
Loss for the year				(2,072)	(2,072)
Other comprehensive income			380		380
Total comprehensive income			380	(2,072)	(1,692)
Transactions with owners of the Company, recognised directly in equity:					
Issue of shares	10	207		(217)	0
Settlement of losses		(800)		800	0
Change in reserves			5		5
Total transactions with owners of the Company	10	(593)	5	583	5
Balance at 31 December 2012	564	596	659	0	1,819
Balance at 1 January 2013	564	596	659	0	1,819
Total comprehensive income:					
Profit for the period				247	247
Other comprehensive income			(180)		(180)
Total comprehensive income			(180)	247	67
Balance at 30 June 2013	564	596	479	247	1,886

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Condensed consolidated statement of cash flows for the six months ended 30 June 2013

		2013 1.1.-30.6	2012 1.1.-30.6
Cash flows from operating activities:			
Cash generated from operations before interest and taxes	13	790	2
Interest income received		18	12
Interest expenses paid		(295)	(190)
Income tax paid		(6)	(24)
Net cash from (used in) operating activities		507	(200)
Investing activities:			
Proceeds from sale of operating assets		5	0
Cash disposed of due to an asset classified as held for sale	14	(16)	0
Acquisition of operating assets		(452)	(390)
Acquisition of intangible assest		(138)	(164)
Change in long-term receivables		(158)	12
Net cash used in investing activities		(759)	(542)
Financing activities:			
Repayment of loans and borrowings		(216)	(33)
Long-term borrowing		127	0
Short term borrowings		170	314
Net cash from financing activities		81	281
Net change in cash and cash equivalents		(171)	(461)
Cash and cash equivalents at 1 January		443	811
Effects of exchange rate fluctuations on cash held		(13)	5
Cash and cash equivalents at 30 June		259	355

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Notes to the condensed consolidated financial statements

1. Reporting entity

Advania hf. (the "Company") is a limited liability company incorporated and domiciled in Iceland. The address of the Company's registered office is Guðrúnartún 10, Reykjavík. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2013 comprise the Company and its subsidiaries, together referred to as the "Group" and individually as Group entities. The Group operates in the IT sector. 73,95% of the Company's share capital is owned by Framtakssjóður Íslands slhf. (The Iceland Enterprise Investment Fund slhf.).

2. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2012. This condensed consolidated interim financial report does not include all the information required for full annual financial statements prepared in accordance with International Finanicial Reporting Standards.

The Group's consolidated financial statements as at and for the year ended 31 December 2012 are available at the Company's website, www.advania.is.

These condensed interim financial statements were approved by the Board of Directors on 29 August 2013.

The accounting policies and methods of computation applied by the Group in these condensed interim consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2012.

3. Basis of preparation and significant accounting policies

These condensed consolidated interim financial statements are prepared in Icelandic kronur (ISK), which is the Company's functional currency, rounded to the nearest million. The condensed consolidated interim financial statements are prepared on the historical cost basis.

4. Judgements and estimates

Preparing the interim financial report requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial reporting, the significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2012.

Notes, continued:

5. Segment reporting

Segment information is presented in respect of the Group's business segments. The segment format is organised by the nature of the operations and is based on the Group's management and internal reporting structure. The only segment in the Group's operation is information technology.

Geographical information

Segment sales, EBITDA and assets are based on the geographical location of the assets.

	Iceland	Sweden	Norway	Other	Consolidated
30 June 2013					
Sales	6,098	5,692	1,833	8	13,631
EBITDA	307	164	469 *	0	940
Assets	9,959	4,117	1,742	267	16,085
30 June 2012					
Sales	5,446	5,325	2,183	0	12,954
EBITDA	350	183	(486)	1	48
Assets	7,749	4,856	3,086	308	15,999

* See note 6

6. Other income

Advania AS, Norway sold an IP code (intellectual property code) during the period resulting in other revenues amounting to ISK 540 million.

7. Employee benefits

As a result of a curtailment in the pension arrangement for the employees in Advania AS, Norway, 183 million ISK were charged in the condensed consolidated statement of comprehensive income during the six months ended 30 June 2012.

8. Finance income and expense

Finance income and expenses are specified as follows:

	2013 1.1.-30.6	2012 1.1.-30.6
Interest income on loans and receivables	20	16
Finance income	20	16
Interest expense on long-term interest bearing financial liabilities	(234)	(240)
Interest expense on short-term interest bearing financial liabilities	(42)	(13)
Net foreign exchange loss	(19)	(9)
Finance expenses	(295)	(262)
Net finance income and expense	(275)	(246)

9. Income tax

Profit before income tax amounts to ISK 209 million. Income tax income amounts to ISK 38 million. The reason for this deviation is that the majority of the profit is originated from the operations of Advania AS, for which no income tax has been calculated as the company has not recognised all of its deferred tax asset.

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10. Loans and borrowings

Repayments of loans and borrowings (excluding bank overdraft) are specified as follows:

	30.6.2013	31.12.2012
Repayments in 2013 (6 months) (2012: 12 months)	134	246
Repayments in 2014	2,501	2,460
Repayments in 2015	281	240
Repayments in 2016	258	240
Repayments in 2017	240	240
Subsequent repayments	3,231	3,382
Total	6,645	6,808

The Company has an extension warranty until 1 September 2018 for a loan amounting to ISK 2,000 million with Landsbankinn hf., that is due on 1 August 2014.

Landsbankinn hf. has granted Advania hf. a temporary exemption from the covenants in the loan agreements as it was not fulfilled at year-end 2012. The exemption is valid until year-end 2013.

11. Related parties

Parent and ultimate controlling party

73,95% of the Company is owned by Framtakssjóður Íslands slhf. (The Iceland Enterprice Investment Fund slhf.) which is in majority ownership of Icelandic pension funds.

12. Group entities

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

	Ownership interest	
	30.6.2013	31.12.2012
Advania AS, Norway	100.0%	100.0%
Advania Holding AB, Sweden	100.0%	100.0%
Advania AB, Sweden	100.0%	100.0%
Virtus AB, Sweden	100.0%	100.0%
Exa ehf., Reykjavík	100.0%	100.0%
Miðavefur ehf., Reykjavík	100.0%	100.0%
Sterna ApS, Denmark	50.0%	50.0%
Thor Data Center ehf., Hafnarfjörður	100.0%	100.0%

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Notes, continued:

13. Statement of Cash Flows

Cash generated from operations before interest and taxes in the statement of cash flows are specified as follows:

	2013 1.1.-30.6	2012 1.1.-30.6
Profit (loss) for the period	247	(580)
Adjustments for:		
Depreciation	202	199
Amortisation of intangible assets	255	182
Net finance costs	275	246
Long term receivables, change	0	173
Gain on sale of property, plant and equipment	(4)	0
Income tax	(38)	1
Inventories, change	(12)	102
Trade and other receivables, change	331	(8)
Trade and other payables, change	(466)	(313)
Cash generated from operations before interests and income tax	790	2

14. Asset held for sale

The subsidiary Kogun USA Inc. has been classified as an asset held for sale. In addition the subsidary Advania SIA, Latvia, is presented as an asset held for sale following the commitment of the Group's management to sell the subsidiary. The assets and liabilities of the company are immaterial within the Group.

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