

Prospectus,  
Teymi hf.  
March 2007



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This Prospectus is published on 22 March 2007

This Prospectus has been scrutinised and approved by the Iceland Stock Exchange (ICEX) on behalf of the Financial Service Authority in Iceland. This Prospectus is issued in connection with the offering of new shares for the total amount of ISK 4,000 million in Teymi hf. The offer will take place on 22 and 23 March 2007. The share offering and admission to trading is conducted in accordance with Icelandic law and regulations, including Directive 2003/71/EC of the European Parliament and of the Council 4 November 2003 (the "Prospectus Directive") which has been implemented by national law. This Prospectus is prepared pursuant to current legislation and rules for issuers of shares on ICEX that apply to the listing.

This Prospectus consists of three independent documents; a Summary, a Securities Note and a Registration Document published 20 November 2006.

This Prospectus is published in Acrobat Adobe format on [www.Teymi.is](http://www.Teymi.is). It is also available in Acrobat Adobe format in ICEX's news system ([www.news.icex.is](http://www.news.icex.is)) and on Landsbanki Íslands's website ([www.landsbanki.is](http://www.landsbanki.is)). Additionally a hard copy can be obtained from Teymi hf. headquarters at Skútuvogur 2, Reykjavík, Iceland. This Prospectus can be obtained for twelve months from publication which is the time that it is valid.

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The image features a white background with several thin, dark grey wavy lines that sweep across the upper portion of the frame. A solid, dark grey horizontal bar is positioned in the lower right area. Below this bar, the word "Summary" is written in a clean, black, sans-serif font.

Summary

# Summary

The following information is in extracted form, and should be read as an introduction to the full text of the Prospectus. This Summary, the Securities Note and the Registration Document published in November 2006 form the Prospectus published 22 March 2007. The Prospectus published in November 2006 consisted of three independent documents; a Summary, a Securities Note and a Registration Document.

This Summary and the Securities Note are issued in connection with the offering and admission to trading of 842,105,263 new shares in Teymi hf. The offering of new shares for the total amount of ISK 4.000 million will take place on 22 and 23 March 2007. It will be in two parts; 421,052,632 shares are offered to Teymi's shareholders and 421,052,632 to institutional investors.

At the time of publication of the Summary and the Securities Note, the total number of shares in Teymi stands at 2,728,200,000, all of which are listed on the ICEX Main List under the ticker symbol TEYMI. After the aforementioned capital increase, Teymi's shares will number 3,570,305,263.

The aim is to complete the dematerialised issue and delivery of the new shares at the Icelandic Securities Depository no later than 2 April 2007. The shares will be listed on the ICEX Main List no later than 3 April 2007.

Any investment decision relating to the shares should be based on a consideration of the Prospectus as a whole. 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 EEA Agreement, have to bear the costs of translating the Prospectus before legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this Summary, including any translation of this Summary, but only if this Summary is misleading, inaccurate or inconsistent when read together with other parts of the Prospectus.

The offering and admission to trading of the new issued share capital of Teymi hf. on the ICEX Main List is governed by Icelandic law and regulations and Directive 2003/71/EC of the European Parliament and the Council of 4 November 2003 (the "Prospectus Directive"), which has been incorporated in the EEA Agreement and implemented by national law. This Summary and the Securities Note are prepared pursuant to current legislation and rules for issuers of shares on the Icelandic Stock Exchange that apply to the listing.

ICEX has scrutinised and approved this Summary and the Securities Note, which are only published in English. Landsbanki Íslands hf. – Corporate Finance is the Manager of the share offering and has been the advisor to the Issuer in the preparation of the Prospectus and advisor to admission to trading on the Main List of ICEX.

In the Summary and the Securities Note, "Teymi," "the group" "the issuer" and "the company" refer to the Teymi hf., while "Landsbanki" and "the bank" refer to Landsbanki Íslands hf., unless otherwise indicated from the wording or context.

Further details on the arrangement of the offering are provided in Chapter 7 in the Securities Note.

The purchase of equities is inherently a risk investment, based on expectancy of future profit. The Summary or the Securities Note may not in any way be regarded as a promise of successful operations or a return on funds by Teymi hf. or Landsbanki Íslands hf. Investors are advised to familiarize themselves thoroughly with the Prospectus published November 2006 and the Securities Note. The information presented herein reflects its date of issue.

Investors are advised to follow news announcements and notifications that may be published in the ICEX News System concerning Teymi once the Summary and the Securities Note have been issued.

Each investor must base a decision to invest in shares of Teymi hf. on his/her own examination and analysis of the information presented in the November 2006 Prospectus and the current Securities Note. Investors are advised to study their legal position, including taxation issues that may be relevant to their transactions in Teymi's shares. Investors are urged especially to acquaint themselves well with the discussion of risk provided in Chapter 1 of the Registration Document, published November 2006.

This Summary or the Securities Note or any document forming a part of the Prospectus shall not be distributed and must not be mailed or otherwise distributed or sent in or into any country in which distribution would require any additional registration measures or other measures to be taken, other than as applicable under Icelandic law and regulations, or would contravene any law or regulation in the respective country.

Attention is drawn to the fact that the Manager of the listing and the advisor to the Issuer to admission to trading on the ICEX Main list, Landsbanki Íslands hf. – Corporate Finance, is part of Landsbanki's Securities and Treasury division. Landsbanki is one of Teymi hf.'s principal banks. At the time of issue of the Securities Note, Landsbanki Íslands was the registered owner of 16,753,835 shares in Teymi hf., or the equivalent of 0.6% of its total share capital.

Investors should note that Landsbanki serves as a market maker for issued shares in Teymi hf.

Information other than that presented in this Summary or the Securities Note and incorporated by reference or display cannot be regarded as approved by Teymi hf., or the Manager, Landsbanki Corporate Finance hf.

## Documents on display

The following documents are available for viewing for the life of the Summary and Securities Note:

- The Registration Document published 20 November 2006, may be viewed on Teymi's website [www.teymi.is](http://www.teymi.is) and on the news section of the ICEX website [www.news.icex.is](http://www.news.icex.is). The Icelandic Stock Exchange has scrutinised and approved the aforementioned document.
- Teymi hf.'s Articles of Association may be obtained from Teymi hf.'s website [www.teymi.is](http://www.teymi.is) and from the news section of the ICEX website [www.news.icex.is](http://www.news.icex.is).
- Teymi's 2006 Annual Financial Statement (covering three months period from 1 October - 31 December 2006) may be obtained from Teymi hf.'s website [www.teymi.is](http://www.teymi.is) and from the news section of the ICEX website [www.news.icex.is](http://www.news.icex.is)

Copies of documents incorporated by reference in this Summary can also be obtain from the registered office of the Issuer and from the website ([www.teymi.is](http://www.teymi.is)) for the twelve months during which the Summary is valid.

## Terms of the Offering

Subscriptions in the offering are binding. The results will be published on the ICEX News Systems before 10 am on 26 March 2007. Payment instructions will be available on the Landsbanki website [www.landsbanki.is](http://www.landsbanki.is) after the expiry of the subscription period. The payment due date is 28 March 2007. The offer price is ISK 4.75 per share.

The purpose of the offering is to support further growth of Teymi, strengthen the company and enable it to make use of investment opportunities which may materialise in the market.

The Offering period will start at 10am on Thursday 22 March and end at 4pm on Friday 23 March 2007.

Some of Teymi's shareholders; Baugur hf., Runnur ehf., Fons Eignarhaldsfélag ehf, Melkot ehf. and Grjóti ehf. have committed to a subscription of shares in the intended share offering in proportion to their respective shareholdings as recorded in Teymi's share register at the end of business on 15 March 2007. The shareholdings of said parties remained unchanged on 20 March 2007.

## Sale procedure

### **Sale to Teymi's shareholders – registration of subscriptions, transfer and unsubscribed shares**

Teymi's shareholders will be offered a total of 421,052,632 new shares. Each shareholder will be entitled to participate in the offering in proportion to his/her respective shareholdings as recorded in Teymi's share register at the close of business on 15 March 2007. Shareholders may subscribe for a lower or higher number of shares than they are entitled to. Unsubscribed shares in this part of the offering will be distributed to shareholders who have subscribed for an additional allotment, in proportion to their respective shareholdings as recorded in Teymi's share register at the close of business on 15 March 2007. Should the demand for the shares offered to shareholders be insufficient to place the full offer, the Board may allocate any such unsubscribed shares to institutional investors.

Subscriptions may only be submitted electronically on Landsbanki's website ([www.landsbanki.is](http://www.landsbanki.is)). Only shareholders who were registered in Teymi's share register at the close of business on 15 March 2007 may subscribe to this part of the offering, and only by identifying themselves using their ID No. and a password sent to them by mail. Electronic confirmation is required for valid subscription. The confirmation will appear upon completion of the subscription form and can be printed.

From 26 March 2007 shareholders can obtain the notification of allocation and payment instructions from the website, using the same login details as when subscribing. Payment notes for the allocated number of shares, will also be payable at Icelandic on-line banks at the end of the subscription period.

Teymi's shareholders which are defined as institutional investors according to Point 7 of the first paragraph of Article 2 of Act No. 33/2003 on Securities Transactions are fully authorised to participate in the Offer to institutional investors.

### **Offer to institutional investors – registration of subscriptions**

A total of 421,052,632 shares will be offered to institutional investors. Only institutional investors as defined in Point 7 of the first paragraph of Article 2 of Act No. 33/2003 on Securities Transactions may take part in this part of the Offering.

Institutional investors must submit a binding application for subscription using the forms provided for this purpose, which can be obtained from Landsbanki's Brokerage department and Corporate Finance department. Teymi's Board is authorised to reject subscriptions in this part of the offering in part or whole. Should there be insufficient demand for shares in the offer to institutional investors; the Board may allocate any unsubscribed shares to Teymi's shareholders as recorded in Teymi's share register at the close of business on 15 March 2007.



Institutional investors that are allocated shares will be sent notification of the Board's approval of their subscription and payment instructions at the end of the offer period. Payment notes for the allocated number of shares, will also be payable at Icelandic on-line banks at the end of the subscription period.

## Underwriting

Landsbanki has underwritten the share offering in full at the offer price. The underwriting agreement was signed on 28 December 2006.

## Dilution

At the time of issue of the Securities Note, the total number of shares in Teymi stands at 2,728,200,000. The intended capital increase totals 842,105,263 shares, which means that the total number of shares in the company after the increase will be 3,570,305,263 shares.

Teymi's Board of Directors has decided to offer 421,052,632 shares to Teymi's shareholders and 421,052,632 share to institutional investors.

Assuming that Teymi's shareholders exercise the full offering to shareholders but that they do not take any part in the offering to institutional investors, the resulting proportional dilution of their shares in Teymi will be 11.8%. The total number of shares offered to parties other than Teymi's shareholders is 421,052,632 shares.

If an existing Teymi shareholder does not take part in the offering at all, the resulting proportional dilution of his shares will be 23.6%.

## Cost of commission for offering and admission to trading

The total commission for underwriting the offering and for the sale and admission to trading the new shares is estimated at approximately ISK 220 million of which ISK 100 million is commissions for underwriting.

## Issuer

Legal name: Teymi hf.

Company registration number: 571106-0940

Domicile: Skútuvogur 2, 104 Reykjavík, Iceland

Telephone number: + 354 595 5000

E-mail: teymi@teymi.is

Legal form: Public Limited Company in accordance with Act No. 2/1995 respecting Public Limited Companies

Share capital: 2,728,200,000 (ISK 1.0 per share)

Website: www.teymi.is

Ticker: TEYMI

ISIN No.: IS0000013647

Teymi hf. was incorporated and registered in the Register of Limited Companies on 17 November 2006. Teymi hf. was established following the decision of the shareholders' meeting of Dagsbrún hf. on the division of the company. Teymi hf. assumed the electronic communications and IT activities of Dagsbrún hf.

At Teymi's Annual General Meeting 20 March 2007 Þórdís J. Sigurðardóttir, Þorsteinn M. Jónsson, were re-elected as Board members of Teymi hf. New members of the Board are Ásta Bjarnadóttir, Jón Þorsteinn Jónsson and Pétur Már Halldórsson. Einar Þór Sværriðsson and Soffía Lárusdóttir were re-elected as alternate members.

### Auditors of Teymi hf.

Margret G. Flóvenz	KPMG hf.
Hlynur Sigurðsson	KPMG hf.

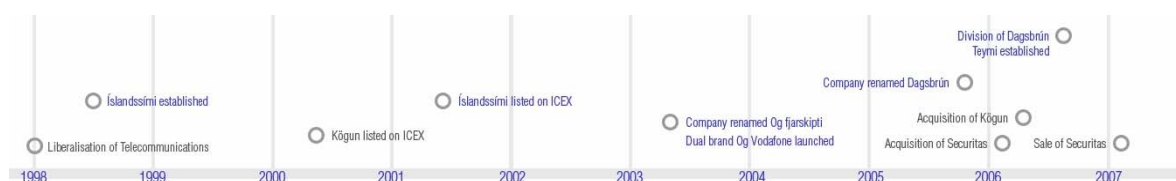
### Board of Directors - Teymi hf.

Þórdís J. Sigurðardóttir	Chairman of the Board
Ásta Bjarnadóttir	Board member
Jón Þorsteinn Jónsson	Board member
Þorsteinn M. Jónsson	Board member
Pétur Már Halldórsson	Board member
Einar Þór Sværriðsson	Alternate member
Soffía Lárusdóttir	Alternate member

### Key management - Teymi hf.

Árni Pétur Jónsson	CEO Teymi
Ólafur Þór J'ohannesson	CFO Teymi
Dóra Sif Tynes	CLO and General Counsel Teymi
Björn Víglundsson	CMO Vodafone
Gestur G. Gestsson	CTO Vodafone
Hrónn Sveinsdóttir	CFO and HR Manager Vodafone
Ómar Svavarsson	Chief Sales Vodafone
Bjarni Bjarnason	CEO Kall Telecom
Bjarni Birgisson	CEO Kögun
Jóhann Þór Jónsson	CFO Kögun
Þórólfur Árnason	CEO Skýrr
Jón Víggó Gunnarsson	CEO EJS

## History and development



<sup>1</sup> At 26 February 2007 Teymi signed agreement to sell all its shares in the subsidiary Securitas hf. for ISK 3,800 million excluding interest bearing debt to an unfounded company owned by Fons Eignarhaldsfelag ehf. The sale is subject to due diligence results and the approval of competition authorities.

## Activities and organisation

Teymi hf. is a holding company active in electronic communications and IT services.

At the time of the publication of the Summary Teymi will employ 771 people. Of that total, 306 were employed by Vodafone and 465 by Kögun ehf.

The group aims at building a leading communication company in Iceland, with emphasis on electronic communications and IT.

## Risk factors

Investment in equities involves risk. Teymi hf. operates in a market in which several factors may influence the company's performance. No guarantee can be provided that investment in the company's shares will be profitable.

Teymi's main risk factors include:

- market risk
- supplier risk
- legal risk
- operational risk
- investment risk
- management and personnel risk

## Shareholders

At the publication of the Summary and the Securities Note 41% of Teymi's share capital is owned by general investors.

At the time of publication of the Summary and the Securities Note, Teymi's shareholders total 1,029. The accompanying table lists Teymi's largest shareholders 20 March 2007.

To the knowledge of Teymi, there are six persons, other than members of the Board of Directors or management of Teymi, that have direct or indirect interests in Teymi's capital or voting rights, which are notifiable under Icelandic law. These persons are Baugur Group hf., Runnur ehf., Straumur-

## Teymi's Organisational Chart



### Teymi hf. - largest shareholders 20 March 2007

Name	No. of shares	Shareholding
Baugur Group hf.	684,908,777	25.10%
Runnur hf.	295,374,947	10.83%
FL Group hf.	212,485,004	7.79%
Straumur Burðarás Investment Bank hf.	199,865,270	7.33%
Milestone hf.	191,030,966	7.00%
LI-Hedge	165,043,517	6.05%
Diskurinn ehf.	120,953,520	4.43%
Arion - Client/nominee account	116,888,338	4.28%
Landsbanki Luxembourg S.A.	113,449,753	4.16%
Teymi hf.	80,370,701	2.95%
Fons Eignarhaldsfélag hf.	69,627,210	2.55%
Þórdís Jóna Sigurðardóttir	67,434,702	2.47%
Grjóti	61,554,067	2.26%
Iða fjárfesting ehf.	52,023,983	1.91%
Teton ehf	36,286,000	1.33%
Total 15 largest shareholders	2,467,296,755	90.44%
Total other shareholders	260,903,245	9.56%
Total no. of shares	2,728,200,000	100.00%
Treasury shares	80,370,701	2.95%
Active share capital	2,647,829,299	97.05%

Burðarás Investment Bank, Milestone ehf., FL-Group hf. and LI-Hedge.<sup>2</sup>

## Overview of operations, finances, and prospects

The table below shows key figures from Teymi's balance sheet at 31 December 2006 and 1 October 2006 and operating results for Q4 2006 and Q4 2005 (pro forma).

EBITDA Q4 2006, excluding real estate sale profit amounted to ISK 807 million, increasing by 11% from Q4 2005 (pro forma).

Teymi's total assets stood at ISK 36,788 million at 31 December 2006, of which equity accounted for ISK 4,148 million. Total liabilities were ISK 32,640 million, including secured liabilities (leases and bank borrowings) totalling ISK 27,972 million.

At 26 February 2007 Teymi signed an agreement to sell all its shares in the subsidiary Securitas hf. for ISK 3,800 million excluding interest-bearing debt to an unfounded company owned by Fons Eignarhaldsfelag ehf. The sale is subject to due diligence results and the approval of competition authorities. The date of transfer according to the purchase agreement is 1 March 2007 and the profit from the sale amounts to approximately ISK 500 million before taxes. The payment will be effected in its entirety in the year 2007.

Landsbanki Íslands hf. has assumed Teymi's loan to Hands Holding hf., at a recorded value of ISK 2,688 million at 31 December 2007.

The effect of the foregoing on Teymi's 31 December 2006 balance sheet is a reduction amounting to ISK 5.4 billion in interest-bearing debt excluding cash: i.e. a decrease from ISK 27.3 billion to 21.9 billion. In addition, the current ratio is raised from 0.51 to 1.19.

The accompanying table shows Teymi's capitalisation and indebtedness based on the Balance Sheet 31 December 2006.

Securitas hf. will be included in Teymi's consolidated accounts of Teymi until the end of February 2007. Figures from Securitas' accounts will be presented as discontinued operations in Q1 2007 and thus compared to Q1 2006.

Key figures Teymi hf.		
Operating results	Q4 2006	Q4 2005
Turnover	5,401	4,576
Profit before depreciation (EBITDA)*	1,542	730
Profit from operations (EBIT)	1,032	-
<b>Financial position</b>	<b>31.12.2006</b>	<b>1.10.2006</b>
Total assets	36,788	35,697
Total liabilities	32,640	29,857
Equity	4,148	5,840
Equity ratio	11%	16%
Interest-bearing loans	27,972	25,656
<i>All amounts in ISK million</i>		

\* EBITDA excluding real estate sales profit amounted to ISK 807 million.

Teymi hf.	
Capitalisation and indebtedness	31 December 2006
Share capital	2,645
Other Reserves	1,492
Minority interest	11
<b>Capitalisation:</b>	<b>4,148</b>
Cash	361
Marketable securities	272
Cash and cash equivalents	633
Current financial receivable	4,184
Current bank debt	5,851
Other current debt	4,581
Current financial debt	10,432
Net current financial indebtedness	5,615
Secured bank loans	22,057
Finance lease liabilities	64
Other non-current loans	87
Non-current financial indebtedness	22,208
<b>Net financial indebtedness</b>	<b>27,823</b>
<i>Amounts in million of ISK</i>	

<sup>2</sup> Further information regarding Teymi's shareholders can be found in chapter 11 of the Registration Document published 20 November 2007.

Previously published forecast for the year 2007; turnover ISK 21.0 -22.5 billion and EBITDA ISK 4.0 – 4.4 billion was published September 2006. The estimated impact of Securitas hf. in the company's aforementioned forecast turnover and EBITDA is around ISK 2 billion in turnover and ISK 300 million in EBITDA.

The forecast is based on assumptions of an organic growth of approximately 15% from estimated revenues and estimated EBITDA margin for the year 2006. It is in line with the targets identified by the Group's management for the year 2007 based on the figures for the first six months of 2006 for each company within the Teymi Group. It is therefore not subject to any significant changes in the economic environment or other factors out of management's control or influence.

Teymi hf. has identified organic growth targets of 13-16% in the electronic communications and 5-7% in the IT segments over the next 3 years.

## Articles of association

### Issue and share characteristics

All the shares of Teymi hf. are of the same class and carry equal rights. Teymi's share capital consists of shares of ISK 1.0 and multiples thereof. The shares have been created under Act no 2/1995 on Public Limited Companies. All shares in Teymi have been paid in full.

Shares in the Company are issued electronically in a securities depository, pursuant to the Act on Electronic Registration of Securities. Once a shareholder has paid 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 Company's Articles of Association.

Under Article 2 of the Company's Articles of Association, its Board of Directors may issue shares electronically through a securities depository in accordance with Act No. 131/1997 on Electronic Registration of Title to Securities. The dematerialised shares in Teymi are registered with the Icelandic Securities Depository, Laugavegur 182, Reykjavík. The shares' ticker code is TEYMI and their ISIN number is IS0000013647. All shares in the Issuer are registered in the shareholder's name and state identification number (ID No.).

Teymi hf.'s shares are expected to be admitted to trading on ICEX 20 November 2006. The shares' ticker code in the ICEX trading system is TEYMI and the trading lot, i.e. the smallest number of shares required for consideration in price formation, is 10.000 shares.

### Rights

All of Teymi's shareholders have voting rights in accordance with their shareholdings. Decisions at shareholders' meetings shall be taken by a majority vote unless otherwise specified in the Company's Articles of Association or statutory law. If there is an equality of votes, the motion shall be lost. If two or more persons receive an equal number of votes, the election shall be decided by casting lots.

There are no restrictions on shareholders' disposal of shares in the Company. Shareholders have pre-emptive rights to all newly issued shares in proportion to their registered shareholdings. In other respects, the issuance of such shares is governed by the rules set by the Board of Directors in accordance with the decision of a shareholders' meeting each time a new issue is approved.

No privileges are conferred by shares in the Company.

Regarding other rights, reference is made to Teymi's Articles of Association, the Public Limited Companies Act No. 2/1995 and other applicable provisions of law.

## Authorisation for Share Capital increase

The Company's Board of Directors is authorised to increase its share capital by up to ISK 1.000.000.000. This authorisation remains valid for 18 months as of its approval at the shareholders' meeting. The shareholders waive their pre-emptive rights to the new shares cf. Article 34 of Act no. 2/1995 on Public Limited Companies. The Board of Directors is authorised to grant individual shareholders, at each time, an authorisation to subscribe to the new shares in whole or in part. The new shares shall carry rights in the Company as of the date of registration of the share increase. The Company's Board of Directors shall determine the details of the share increase, including price and payment terms.

The Board of Directors is authorised to increase its share capital by up to ISK 100.000.000 for the payment of commitments relating to stock option contracts with employees and Directors. This authorisation will be valid for five years from its approval by a shareholders' meeting on 17 November 2006. The shareholders have waived their pre-emptive right to new shares. The Board of Directors decides the further details of this provision.

## Dividends

Teymi's Board of Directors has not set a dividend policy for the Company.

A resolution on the distribution of dividends shall be made at the AGM. According to Act no. 2/1995, on Public Limited Companies dividends shall be paid to those that are registered as the owners of Teymi's shares at the end of the day of the AGM when dividends payment is decided. If shareholders' dividends have not been paid, then the shareholders may collect their dividends at the Issuer's office within four years of payment being due. This right to a dividend lapses four years later according to Act. No.14/1905 on the Lapse of Debts and Other Claim Rights.

Further information about the Articles of Association is located in chapter 10.3 in the Registration Document published November 2006 and the chapter 6 in the Securities Note.



## Securities Note

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# 1 Risk factors

Investment in equities involves risk. Teymi hf. operates in a market in which numerous factors may influence the company's performance. No guarantee can be provided that investment in the company's shares will be profitable. The discussion provided below is by no means exhaustive as regards the risk of investing in Teymi's shares, and investors are advised to undertake their own independent examination of the factors that may apply specifically to their investment in the company. Each investor must furthermore base any decision on investment in Teymi's shares on his/her own examination and analysis of the information presented in this Securities Note. Investors are also advised to study their legal position, including taxation issues that may be relevant to their transactions in Teymi's shares.

## 1.1 General equity risk

Equities are generally a riskier investment than bonds. Risk results in particular from the fact that share prices fluctuate more than bond prices. In the long term, however, investing in shares is, on average, more profitable than investing in bonds. Shares can generate two types of return: first, through change in the value or market price of the shares in question and, second, through dividends paid to shareholders.

Financial and equity markets are subject to the business environment shaped by their respective government authorities at any given time. Major changes in the regulatory framework set by government for financial and equity markets can have a negative impact and create market unrest.

Investors must keep in mind that shares are subordinated claims on the assets of companies. This means that in the event of the company's liquidation, shareholders will receive what is left after all other claims have been met.

## 1.2 Liquidity risk

Liquidity risk arises from the possibility that an investor may not be able to sell an asset within a reasonable time at a price that reasonably reflects the real value of the asset. A measure for this risk is the spread between bid/ask prices on the market. This risk is both dependent on the quantity of shares bid and offered (i.e. the risk that at a given time, the market will not absorb at full price the quantity an investor wishes to sell), and the share price (since the bid or offer of a large quantity of the same type of shares can have a substantial impact on their price formation).

At the time of issue of this Securities Note, 41% of Teymi's shares are held by general investors. General investors are those that are not members of the Board of Directors, key management personnel, individual shareholders with stakes of 10% or higher, parties financially related to the foregoing (e.g. spouses, co-habiting partners and children not legally competent to manage their financial affairs), parent companies or subsidiaries. Under ICEX listing requirements, at least 25% of the share capital of listed companies must be held by general investors.

## 1.3 Further share capital increase can dilute shareholdings

If new shares in the company are issued, the proportional shareholding of those who already own shares in the company will be reduced accordingly, unless they themselves acquire the new shares pro rata to their existing

holdings. The purpose of increasing capital is normally to finance projects with the long-term intention of making the company more valuable. Shareholders may therefore be faced with increased risk to their investment alongside the dilution of their shares. It is possible that the company will consider increasing its share capital further in the future in order to finance its continuing growth.

## 1.4 Shareholder structure

A company's shareholder structure can be a risk factor for investors. A lack of leading investors or large concentrations of share ownership are examples of circumstances that can have negative effects on the operations of the company. Investors should be aware of the fact that ownership of the company can change rapidly and without any prior warning.

## 2 Persons Responsible

The Board of Directors and the CEO, on behalf of the Issuer, named below, hereby declare that they have taken all reasonable care to ensure that such is the case the information contained in the Prospectus<sup>1</sup> is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 21 March 2007

On behalf of the Board of Directors of Teymi hf., Skútuvogur 2, Reykjavík

Pórdís J. Sigurðardóttir  
Chairman of the Board

Árni Pétur Jónsson,  
CEO

## 3 Statutory Auditors

Teymi's Auditors at the time to which the historical financial information in this Securities Note relates are KPMG Endurskoðun hf., ID. No. 590975-0579. KPMG Endurskoðun hf. was re-elected as Teymi hf.'s auditors at Teymi's Annual General Meeting (AGM) on 20 March 2007 and will serve as such until the company's next AGM.

Teymi's Auditors have neither resigned nor have they been discharged from their duties during the period to which the said historical financial information relates.

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<sup>1</sup> The Summary, the Securities Note and the Registration Document published in November 2006 form the Prospectus, published 22 March 2007

## 4 Manager

The Manager, Landsbanki Íslands hf. – Corporate Finance, Hafnarstræti 5, Reykjavík, Iceland, has been the advisor to the Issuer in the preparation of this Securities Note, the share offering process and admission to trading on the ICEX Main List.

## 5 Key information

### 5.1 Working capital capitalisation and indebtedness

It is the Issuer's opinion that the company's working capital is sufficient to its present requirements. After the sale of Securitas hf. and the assumption of Teymi's loan to Hands Holding ehf. by Landsbanki Íslands hf., the current ratio is raised from 0.51 to 1.19.

The accompanying table shows Teymi's capitalisation and indebtedness based on the Balance Sheet at 31 December 2006.

Teymi's total assets stood at ISK 36,788 million at 31 December 2006, of which equity accounted for ISK 4,148 million. Total liabilities were ISK 32,640 million, including secured liabilities (leases and bank borrowings) totalling ISK 27,972 million.

On 26 February 2007, Teymi signed an agreement to sell all its shares in the subsidiary Securitas hf. for ISK 3,800 million, excluding-interest bearing debt, to an unfounded company owned by Fons Eignarhaldsfélag ehf. The sale is subject to due diligence results and the approval of competition authorities. The date of transfer according to the purchase agreement is 1 March 2007 and the profit from the sale amounts to approximately ISK 500 million before taxes. The payment will be effected in its entirety in the year 2007.

Landsbanki Íslands hf. has assumed Teymi's loan to Hands Holding, at a recorded value of ISK 2,688 million at 31 December 2006.

The effect of the foregoing on Teymi's balance sheet of 31 December 2006 is a reduction in the amount of ISK 5.4 billion to interest-bearing debt excluding cash: i.e. a decrease from ISK 27.3 billion to 21.9 billion.

Teymi's equity ratio at 31 December 2006 stood at 11%. The expected effects of the foregoing and of the intended share offering will be to increase the company's equity ratio to approximately 23% at end of March 2007, all things being equal.

Teymi hf.		
Capitalisation and indebtedness		31 December 2006
Share capital		2,645
Other Reserves		1,492
Minority interest		11
<b>Capitalisation:</b>		<b>4,148</b>
Cash		361
Marketable securities		272
Cash and cash equivalents		633
Current financial receivable		4,184
Current bank debt	5,851	
Other current debt	4,581	
Current financial debt		10,432
Net current financial indebtedness		5,615
Secured bank loans	22,057	
Finance lease liabilities	64	
Other non- current loans	87	
Non-current financial indebtedness		22,208
<b>Net financial indebtedness</b>		<b>27,823</b>
<i>Amounts in million of ISK</i>		

## 5.2 Interests of individuals and legal entities involved in the shares offering

The Manager, Landsbanki Íslands hf. – Corporate Finance, Hafnarstræti 5, Reykjavík, Iceland, has been the advisor to the Issuer; in the preparation of this Securities Note, the share offering process and advisor to admission to trading on the ICEX Main List.

Landsbanki is one of Teymi's principal banks. Landsbanki also serves as a market maker for Teymi's shares.

At the time of issue of this Securities Note, Landsbanki holds 16.753,835 shares in Teymi, which corresponds to a 0.6% stake.

## 5.3 Reason for the offering and use of proceeds

The net cash flow to Teymi from the intended share offering is ISK 3,780 million. The purpose of the offering is to support further growth of Teymi, strengthen the company and enable it to make use of investment opportunities which may materialise in the market.

## 5.4 Cost of the offering and admission to trading

Landsbanki's total commission for underwriting the offering and for the sale and admission to trading of the new shares on the ICEX Main List is estimated at approximately ISK 220 million, including is ISK 100 million commissions for the underwriting.

## 6 Information concerning the securities to be offered

### 6.1 Shares to be admitted to trading

All 2,728,200,000 shares issued by Teymi are listed on the ICEX Main List. Teymi has been listed on the Main List since 20 November 2006. The shares' ticker code in the ICEX trading system is TEYMI and the trading lot, i.e. the smallest number of shares required for consideration in price formation, is 10,000 shares.

The company has no plans to apply for a listing of its shares on any exchange other than the Iceland Stock Exchange.

Under Article 2 of the company's Articles of Association, its Board of Directors may issue shares electronically through a securities depository in accordance with Act No. 131/1997 on Electronic Registration of Title to Securities. The dematerialised shares in Teymi are registered with the Icelandic Securities Depository, Laugavegur 182, Reykjavík. Teymi's ISIN number is IS0000013647. All shares in the Issuer are registered in the shareholder's name and state identification number (ID No.).

This Securities Note is issued in connection with the intended share offering on 22 and 23 March 2007, in which new shares for total amount of ISK 4.000 million will be offered for sale. After the intended share offering the number of outstanding shares in Teymi will be 3,570,305,263 shares.

The aim is to complete the dematerialised issue and delivery of the new shares at the Icelandic Securities depository no later than 2 April 2007. The shares will be listed on the ICEX Main List no later than 3 April 2007.

### 6.2 Shareholders' Rights

Each share has a nominal value of one Icelandic kronur (ISK 1) or multiples thereof. One ISK in share capital confers one vote. All of Teymi's shareholders have voting rights in accordance with their shareholdings. Decisions at shareholders' meetings shall be taken by majority vote unless otherwise specified in the company's Articles of Association or statutory law. In the event of a tied vote, the motion shall be lost. For the election of officers, if two or more persons receive an equal number of votes, the election shall be decided by casting lots.

All shares in Teymi have been paid in full and are issued in ISK.

Shares in the company are issued electronically in a securities depository, pursuant to the Act on Electronic Registration of Securities. Once a shareholder has paid 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 company's Articles of Association.

Those who have acquired shares in the company cannot exercise their rights as shareholders until their names have been registered in the share register, or until they have given due notice and submitted proof of their ownership of the share.



There are no restrictions on shareholders' disposal of shares in the company. Shareholders have pre-emptive rights to all newly issued shares in proportion to their registered shareholdings. In other respects, the issuance of such shares is governed by the rules set by the Board of Directors in accordance with the decision of a shareholders' meeting each time a new issue is approved.

The Board of Directors shall maintain a register of shares, pursuant to statutory law. The share register shall be preserved in the offices of the company where all shareholders shall have access to it and be entitled to acquaint themselves with its contents. A printout of titles to shares in the company from a securities depository shall be regarded as an adequate base for a share register.

The share register is regarded as fully valid proof of ownership rights to shares in the company, and any dividend payments at any given time as well as all notifications shall be sent to the party currently recorded in the company's share register as the owner of the respective shares.

Transfer of ownership of a share, whether as a result of sale, gift, inheritance, the settlement of an estate or attachment, shall always be notified to the company's office as soon as such transfers have been effected, and the company's share register shall be amended accordingly.

All shareholders are obliged, without a specific undertaking, to comply with the company's Articles of Association as they now stand or as they may be subsequently amended in lawful fashion. Shareholders may not, however, be obliged to increase their shareholding in the company, nor be subject to involuntary redemption of their shares, either by the Company's Articles of Association or amendments to them.

Shareholders are not liable for the company's commitments beyond their share in the Company unless they assume such liability through a specific legal instrument. This provision can neither be amended nor cancelled by any resolution of a shareholders' meeting.

No privileges are conferred by shares in the company.

Regarding other rights, reference is made to Teymi's Articles of Association, the Public Limited Companies Act No. 2/1995 and other applicable provisions of law.

### 6.3 Dividends

A resolution on the distribution of dividends shall be made at the AGM. According to Act no. 2/1995 on Public Limited Companies, dividends shall be paid to registered owners of Teymi's shares at the end of the day of the AGM when dividend payment is decided. If shareholders' dividends have not been paid, then the shareholders may collect their dividends at the Issuer's office within four years of payment being due. Four years after the due date, the right to collect the dividend payment lapses in accordance with Act. No.14/1905 on the Lapse of Debts and Other Claim Rights.

Teymi has no special restrictions or procedures regarding dividend payment for non-resident shareholders. Teymi's Board of Directors has not set a dividend policy for the Company.

### 6.4 Authorisations for share capital increases

The Company's Board of Directors is authorised to increase its share capital by up to ISK 1,000,000,000 shares. This authorisation remains valid for 18 months as of its approval at a shareholders' meeting. The shareholders waive their pre-emptive rights to the new shares cf. Article 34 of Act no. 2/1995, on Public Limited Companies. The Board of Directors is authorised to grant individual shareholders, at each capital increase, an authorisation to subscribe to the new shares in whole or in part. The new shares shall carry rights in the company as of the date of registration of the share increase. The company's Board of Directors shall determine the details of the share increase, including price and payment terms.

The Board of Directors is authorised to increase its share capital by up to ISK 100,000,000 for the payment of commitments relating to stock option contracts with employees and Directors. This authorisation will be valid for five years from its approval by a shareholders' meeting on 17 November 2006. The shareholders have waived their pre-emptive right to such new shares. The Board of Directors decides the further details of this provision.

Teymi's Board of Directors accepted on 15 March 2007 to exercise the authorisation under the company's Articles of Association to increase its share capital and sell the shares to investor in a share offering for the total amount of ISK 4.000 million.

## 6.5 Shareholders' agreements

Teymi is neither aware of any agreement among company shareholders regarding the exercise of voting rights, nor that shareholders have obliged themselves not to sell their shares for a specific period.

## 6.6 Redemption

Under Article 24 of the Public Limited Companies Act No. 2/1995, a shareholder holding more than 9/10 of a company's capital and controlling an equivalent proportion of its voting rights may decide that other shareholders in the company shall be subject to mandatory redemption of their shares. No single shareholder holds more than 9/10 of the share capital or voting rights of Teymi.

## 6.7 Public takeover bids

In Chapter VI of the Icelandic Securities Act no. 33/2003 it is stated that if a party has directly or indirectly become dominant in a listed company, he shall present other shareholders with a takeover bid. A party is considered dominant if he alone or in collaboration with others has (1) reached at least 40% of the total voting powers through ownership (2) reached at least 40% of the total voting powers through agreements with other shareholders (3) gained power to appoint or dismiss the majority of the members of the company's Board of Directors.

Teymi's shareholders have not received any public takeover bid from a third party for their shares in the company during the current or the preceding financial year.

## 6.8 Market making

Teymi has an agreement with Landsbanki, Kaupþing banki hf. and Glitnir banki hf. on market making by these banks in the company's issued shares. The objective of the market making agreement is to maintain liquidity in Teymi's shares on ICEX in order to ensure effective and transparent price formation.

Under the agreement, Landsbanki undertakes to quote bids and offers on a daily basis for Teymi shares for Landsbanki's own account. Bids and offers shall each be for a minimum of 500,000 shares. Quotes shall be renewed within 10 minutes after being fully accepted. The maximum bid/offer spread must not exceed 1.5%. The maximum amount that Landsbanki is obliged to buy or sell each day is a market value of ISK 50 million.

As a market maker, Kaupþing banki hf. is obliged to submit in its proprietary account daily bid and offer orders for Teymi's stock, for a minimum of 500,000 shares at a price determined by Kaupþing banki hf. The maximum bid/offer spread may not exceed 1.5% and the deviation from last price paid cannot be greater than 3%. Under the agreement Kaupþing Bank hf. is obliged to provide liquidity for up to ISK 50 million in market value daily.

Glitnir banki hf. undertakes to submit daily bids and asks for shares in the company for a minimum of 500,000 shares at a price determined by Glitnir banki hf. The maximum bid/ask spread may not exceed 1% and the

difference from the last price paid may not exceed 3%. Under the agreement Glitnir banki hf. is obliged to provide liquidity for up to market price ISK 50 million.

## 6.9 Taxes

The taxation of Teymi's shares is governed by tax laws in effect at any given time. The company's shares are subject to stamp duty payable by Teymi upon their issue. Investors are advised to seek external tax advice on the tax implications of any investment in the shares.

Teymi is obliged to retain PAYE taxes on dividend payments, as provided for in the second paragraph of Article 3 of Act No. 94/1996 on Capital Income. For Icelandic parties other than those exempt from PAYE tax on capital earnings, the PAYE tax is a final taxation. Regarding dividends paid to non-residents, it must be established whether a double taxation agreement is in effect with the state where the party in question resides and, if so, whether any tax on dividends is payable in addition to tax in Iceland.

Capital gains from the sale of shares in Teymi hf. are taxable in Iceland. Regarding the sale of shares by non-residents, it must be established whether a double taxation agreement is in effect with the state where the party in question resides and, if so, which state has the right of taxation.

Shares in Teymi hf. fulfil the conditions of Item 1, Section B, Article 30 of the Act No 90/2003, with subsequent amendments, on Income Tax and Net Wealth Tax, regarding the deduction of increased investments in shares before the end of 2002 from the income tax base.

## 7 Terms of the Offering

### 7.1 Offer amount, trading period and price

Teymi's Board of Directors decided, on its meeting on 15 March 2007, to exercise the authorisation provided in the company's Articles of Association to increase its share capital and sell the shares to investors in a share offering. Shares will be on offer for the total amount of ISK 4 billion. The purpose of the offering is to support further growth of Teymi hf., strengthen the Company and enable it to make use of investment opportunities which may materialise in the market.

The offering will be in two parts; an offer to existing shareholders and to institutional investors. The offer price is ISK 4.75 per share.

The offer period will start at 10am on Thursday 22 March and end at 4pm on Friday 23 March 2007.

### 7.2 Terms of the offering

Subscriptions to the offering are binding. Its results will be published on the ICEX News Systems before 10 am on 26 March 2007. Payment instructions will be available on the Landsbanki website [www.landsbanki.is](http://www.landsbanki.is) after the expiry of the subscription period. The payment due date is 28 March 2007. The offer price is ISK 4.75 per share.

The cash flow from the intended share offering will be used to finance Teymi's growth and strengthen the company and enable it to make use of investment opportunities which may materialise in the market.

Some of Teymi's shareholders; Baugur hf., Runnur ehf., Fons Eignarhaldsfélag ehf., Melkot ehf. and Grjóti ehf. have committed to a subscription of shares in the intended share offering in proportion to their respective shareholdings as recorded in Teymi's share register at the end of business on 15 March 2007. The shareholdings of said parties remained unchanged on 20 March 2007.

#### **7.2.1 Sale procedure**

##### **Sale to Teymi's shareholders – registration of subscriptions, transfer and unsubscribed shares**

Teymi's shareholders will be offered a total of 421,052,632 new shares. Each shareholder will be entitled to participate in the offering in proportion to his/her respective shareholdings as recorded in Teymi's share register at the close of business on 15 March 2007. Shareholders may subscribe for a lower or higher number of shares than they are entitled to. Unsubscribed shares in this part of the offering will be distributed to shareholders who have subscribed for an additional allotment, in proportion to their respective shareholdings as recorded in Teymi's share register at the close of business on 15 March 2007. Should the demand for the shares offered to shareholders be insufficient to place the full offer, the Board may allocate any such unsubscribed shares to institutional investors.

Subscriptions may only be submitted electronically on Landsbanki's website ([www.landsbanki.is](http://www.landsbanki.is)). Only shareholders who were registered in Teymi's share register at the close of business on 15 March 2007 may

subscribe to this part of the offering, and only by identifying themselves using their ID No. and a password sent to them by mail. Electronic confirmation is required for valid subscription. The confirmation appears on completion of the subscription and can be printed.

From 26 March 2007 shareholders can obtain notification of allocation and payment instructions from the website, using the same login details as when subscribing. Payment notes for the allocated number of shares, will also be payable at Icelandic on-line banks at the end of the subscription period.

Teymi shareholders who are defined as institutional investors according to Point 7, paragraph 1, Article 2 of Act No. 33/2003 on Securities Transactions are fully authorised to participate in the offer to institutional investors.

#### **Offer to institutional investors – registration of subscriptions**

A total of 421,052,632 shares will be offered to institutional investors. Only institutional investors as defined in Point 7, paragraph 1, Article 2 of Act No. 33/2003 on Securities Transactions may take part in this part of the offering.

Institutional investors must submit a binding application for subscription using the forms provided for this purpose, which can be obtained from Landsbanki's Brokerage department and Corporate Finance department. Teymi's Board is authorised to reject subscriptions in this part of the offering in part or in whole. Should there be insufficient demand for shares in the offer to institutional investors; the Board may allocate any unsubscribed shares in this part of the offering to Teymi's existing shareholders as they are recorded in Teymi's share register at the close of business on 15 March 2007.

Institutional investors that are allocated shares will be sent a notification of the Board's approval of their subscription and payment instructions at the end of the offer period. Payment notes for the allocated number of shares, will also be payable at Icelandic on-line banks at the end of the subscription period.

### 7.3 Due date

Subscriptions in the offering are binding. The payment due date is 28 March 2007.

For any shares unpaid after the due date, 28 March 2007, Teymi's Board may either collect payment with penalty interest and costs or cancel the subscription of the shares in question and allocate them to a third party without notice or notification.

### 7.4 Offer price

The offer price is ISK 4.75 per share.

On 14 December 2006 Teymi's Board of Directors decided to grant 13 key employees of the group options to buy shares in the company. Stock option holders are entitled to exercise one-third of their total stock option every year for three years, starting in December 2007. Outstanding options are transferable between years, but expire December 2009. The exercise price of the options is ISK 4.45 per share, which was the average price of the last 10 days before the announcement (14 December 2006).

The options are conditional upon the employee remaining in service. The total value of options issued is ISK 175 million.

## 7.5 Underwriting

Landsbanki has underwritten the share offering in full at the offer price. The underwriting agreement was signed on 28 December 2006.

## 7.6 Result of the Offering

The result of the offering will be published on the ICEX News System before 10am on 26 March 2007.

## 7.7 Delivery of shares

The aim is to complete the dematerialised issue and delivery of the new shares at the Icelandic Securities Depository no later than 2 April 2007. The shares will be listed on the ICEX Main List no later than 3 April 2007.

## 7.8 Dilution

At the time of issue of this Securities Note, the total number of shares in Teymi stands at 2,728,200,000. The intended capital increase totals 842,105,263 shares, which means that the total number of shares in the company after the increase will be 3,570,305,263 shares.

Teymi's Board of Directors has decided to offer 421,052,632 shares to existing shareholders and 421,052,632 shares to institutional investors.

Assuming that existing shareholders exercise the full offering to shareholders but that they do not take any part in the offering to institutional investors, the resulting proportional dilution of their shares in Teymi will be 11.8%. The total number of shares offered to parties other than existing shareholders is 421,052,632 shares.

If an existing shareholder does not take part in the offering at all, the resulting proportional dilution of his shares will be 23.6%.

The following table shows Teymi's ten largest shareholders at 20 March 2007 and the projected shareholder registry based on full participation by Teymi's shareholders and institutional investors in the intended share offering scheduled for 22 and 23 March 2007.

Teymi hf. - largest shareholders 20 March 2007			No. of shares after the Offer	
Name	No. of shares	Shareholding	No. of shares	Shareholding
Baugur Group hf.	684,908,777	25.10%	793,821,630	22.23%
Runnur hf.	295,374,947	10.83%	342,344,893	9.59%
FL Group hf.	212,485,004	7.79%	246,273,953	6.90%
Straumur Burðarás Investment Bank hf.	199,865,270	7.33%	231,647,454	6.49%
Milestone hf.	191,030,966	7.00%	221,408,336	6.20%
LI-Hedge	165,043,517	6.05%	191,288,414	5.36%
Diskurinn ehf.	120,953,520	4.43%	140,187,312	3.93%
Arion - Client/nominee account	116,888,338	4.28%	135,475,693	3.79%
Landsbanki Luxembourg S.A.	113,449,753	4.16%	131,490,311	3.68%
Teymi hf.	80,370,701	2.95%	80,370,701	2.25%
Fons Eignarhaldsfélag hf.	69,627,210	2.55%	80,699,193	2.26%
Þórdís Jóna Sigurðardóttir	67,434,702	2.47%	78,158,036	2.19%
Grjóti	61,554,067	2.26%	71,342,274	2.00%
lóa fjárfesting ehf.	52,023,983	1.91%	60,296,735	1.69%
Teton ehf	36,286,000	1.33%	42,056,129	1.18%
Total 15 largest shareholders	2,467,296,755	90.44%	2,846,861,063	79.74%
Total other shareholders	260,903,245	9.56%	302,391,568	8.47%
New shareholders - institutional investors			421,052,632	11.79%
Total no. of shares	2,728,200,000	100.00%	3,570,305,263	100.00%
Treasury shares	80,370,701	2.95%	80,370,701	2.25%
Active share capital	2,647,829,299	97.05%	3,489,934,562	97.75%

## 8 Changes in Teymi since listed

### 8.1 Teymi's Board of Directors

At Teymi's Annual General Meeting (AGM) 20 March 2007; Þórdís J. Sigurðardóttir and Þorsteinn M. Jónsson, were re-elected as Board members of Teymi. Einar Þór Sverrisson and Soffía Lárusdóttir were re-elected as alternate members. Further information regarding Teymi's Board of Directors can be found in chapter 12.2 of the Registration Document published 20 November 2007. New members of the Board are Ásta Bjarnadóttir, Jón Þorsteinn Jónsson and Pétur Már Halldórsson.

There are no family relationships between any of the members of the Board of Directors or any member of the senior management. No member of the Board of Directors has any conflict of interest between his duties to the company and his private interest.

No member of the Board of Directors has had any convictions in relation to fraudulent offences in the previous five years. No member of the Board of Directors has been a senior manager, member of the administrative, management or supervisory bodies of company which has been a part of or associated with bankruptcy, receivership or liquidation in the previous five years. No member of the Board of Directors has never been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from action in the management or conduct of the affairs of any issuer in the previous five years.

The board is elected for a term of one year. The remuneration of the Board of Directors for the operating year 2007-2008 was decided at the AGM 20 March 2007. A motion was passed setting the Director's remuneration at ISK 100,000 per month and the Chairman's remuneration at double that amount. Alternate Board Members are paid ISK 50,000 for each board meeting attended, with their minimum annual remuneration set at ISK 100,000 and their annual maximum at ISK 1,200,000. Members of the Board of Directors do not hold any options to buy or sell shares in the company at the publication of the Securities Note.

#### **Ásta Bjarnadóttir**

Hjarðarhagi 31, Reykjavík

Education: Ph.D. in Industrial and Organizational Physiology from the University of Minnesota, 1997

Elected: 2007

Holdings in Teymi, including those of financially related parties: 0 shares

Ms. Bjarnadóttir was Human Resource Manager at Hagkaup and Baugur from 1998-1999 and Human Resource Manager of Íslensk erfðagreining hf. from 1999-2001. She was lecturer at Reykjavík University from 2001-2005 when she took over as head of BSc. education in the Business department of Reykjavík University. Current and past board positions, none.

#### **Jón Þorsteinn Jónsson, Board member**

Deildarási 15, Reykjavík

Education: Graduate of the Hotel and Catering School of Iceland, 1990.

Elected: 2007

Holdings in Teymi: 358,325 shares

Holdings of financially related parties: 311,469,300 shares

Mr. Jónsson was Store Manager of Nóatún from 1990-1999 and Manager of Marketing of Nóatún and Kaupás from 1999-2001. He took over as acting Chairman of the Board of the investment company Saxhóll ehf. in 2001. Current board positions: Saxhóll ehf.(Chairman), Saxbygg ehf. (Chairman), BYR Sparisjóður (Chairman), Runnur ehf. (Chairman), Andaklettur ehf. (Chairman), Saxhóll Invest ehf. (Chairman), Saxsteinn ehf. (Chairman), Lífsval



jarðakaupafélag, MP Fjárfestingabanki hf., Gasfélagið ehf., Premium Kredit ehf., Öryggismiðstöð Íslands hf., Tæknilundur ehf. Past board positions none.

### **Pétur Már Halldórsson**

Grænumýri 1, Seltjarnarnes

Education: B.Ed degree from the Iceland University of Education, 1990. Masters degree in Fisheries Science from the University of Iceland, 1998. Masters degree in Marketing and International Trade from the University of Iceland, 2005.

Elected: 2007

Holdings in Teymi: 0 shares

Holdings of financially related parties: 83,729,801 shares

Mr. Halldórsson was CEO of SIF Norway AS from 1998-2000 and Managing Director of FIS Lausnir ehf. from 2000-2006. He was Director of International Sales of Medcare Flaga hf. from 2001-2006. He has been Managing Director of Northern Travel Holding hf. and working on various investment projects for Fons Eignarhaldsfélag from 2006.

Current board positions: Femin ehf. (Chairman), Melkot ehf. (Chairman), Plastprent hf. (Chairman), Pönnu Pizzur ehf. (Chairman), Askur OY, Femin Ltd., FIS Lausnir ehf., Goldsmiths Group Ltd., Hamleys Ltd., Hekla Travel AS, Skeljungur hf., Skeljungur Fasteignir ehf. Past board positions: Christiansen Partners AS, Dreifingamiðstöðin ehf., Eidet Fisk AS, Innn ehf., Loppa Fisk AS, Nykvåg Fisk AS, SIFTHOR Holding AS

## 8.2 Teymi sells Securitas hf. – Loan to Hands Holding hf. assumed by Landsbanki Íslands hf.

On 26 February 2007 Teymi signed an agreement to sell all its shares in the subsidiary Securitas hf. for ISK 3,800 million excluding interest-bearing debt to an unfounded company owned by Fons Eignarhaldsfélag ehf. The sale is subject to due diligence results and the approval of competition authorities. The date of transfer according to the purchase agreement is 1 March 2007 and the profit from the sale amounts to approximately ISK 500 million before taxes. The payment will be effected in its entirety in the year 2007.

Landsbanki Íslands hf. has assumed Teymi's loan to Hands Holding hf., guaranteed by Teymi, at a recorded value of ISK 2,688 million at 31 December 2006.

The effect of the foregoing on Teymi's 31 December 2006 balance sheet is a reduction amounting to ISK 5.4 billion in interest-bearing debt excluding cash; i.e. a decrease from ISK 27.3 billion to 21.9 billion. In addition, the current ratio is raised from 0.51 to 1.19.

Securitas hf. will be included in Teymi's consolidated accounts until the end of February 2007. Figures from Securitas' accounts will be presented as discontinued operations in Q1 2007 and thus compared to Q1 2006. The estimated impact of Securitas hf. on the company's previously published prognosis on turnover and EBITDA is around ISK 2 billion in turnover and ISK 300 million in EBITDA.

## 8.3 Stock options for key employees

On 14 December 2006 the Board of Directors of Teymi hf. decided to grant 13 key employees of the Group options to buy shares in the Company. Stock option holders are entitled to exercise one third of their total stock option every year for three years, starting in December 2007. The exercise price of the options was ISK 4.45 per share which was the average price of the last 10 days before the announcement.

The options are conditional upon the employee remaining in service. The total options issued are ISK 175 million, thereof; Árni Pétur Jónsson, CEO of Teymi, ISK 80 million shares, Ólafur Þór Jóhannesson, CFO, ISK 20 million shares and Bjarni Birgisson, CEO of Kögun hf. ISK 10 million shares.

## 8.4 Financial Statements

Teymi hf.'s consolidated financial statements for the three-month period ending 31 December 2006 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements comprise the consolidated financial statements of Teymi hf. and its subsidiaries.

The period of October to December 2006 marks the first period for which Teymi publishes results following the division of Dagsbrún hf. into Teymi hf. and 365 hf., since the operational division was effective 1 October 2006, as announced on 1 December 2006. Therefore, no comparative amounts are included in the income and cash flow statements. The balance sheet of 1 October 2006 is the opening balance sheet of the company.

### Operating results

Teymi hf. incurred a loss of ISK 1,253 million in the period October to December 2006. Sales in that period amounted to ISK 5,401 million, EBITDA profit ISK 1,542 million, EBIT profit ISK 1,032 million, foreign currency losses from long-term liabilities amounted to ISK 927 million, share of loss and impairment of the company's shares in Hands Holding hf. amounted to ISK 767 million and real estate sales profit was ISK 735 million. EBITDA profit before the gain on sale of real estate was ISK 807 million.

## Income Statement

	2006
	1.10 -31.12
Sales .....	5,401
Cost of services sold .....	(3,708)
<b>Gross profit</b>	<b>1,693</b>
Other income .....	782
Sales expenses .....	(476)
Administrative expenses .....	(889)
Impairment losses on intangible assets .....	(78)
<b>Operating profit before financing costs</b>	<b>1,032</b>
Finance income .....	97
Finance expenses .....	(1,655)
<b>Net finance costs</b>	<b>(1,558)</b>
Share of loss of associates .....	(798)
<b>Profit before tax</b>	<b>(1,324)</b>
Income tax expense .....	71
<b>Profit for the year</b>	<b>(1,253)</b>
<b>Attributable to:</b>	
Equity holders of the parent .....	(1,270)
Minority interest .....	17
	<b>(1,253)</b>
<i>All amounts in million ISK</i>	
Basic earnings per share of ISK 1	(0.47)
Diluted earnings per share of ISK 1	(0.47)
Dividend per ISK nominal value	0

## 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 group's management and internal reporting structure. Telecommunication activities comprise Vodafone, P/F Kall, Internet á Íslandi, Ódýra símafélagið ehf. and Mamma ehf. The information technology segment comprises Kögun hf. and subsidiaries and the security segment comprise Securitas (sold 26 February 2007). Inter-segment pricing is determined on an arm's length basis.

Segment reporting 1.10 - 31.12 2006	Telecommuni- cation	IT	Security	Eliminations	Consolidated
Total external revenues .....	2,847	2,184	661	36	5,728
Intersegment revenue .....				(327)	(327)
Total segment revenue .....	2,847	2,184	661	(291)	5,401
Segment result .....	331	736	74	(109)	1,032
Net finance costs .....					(1,558)
Share in loss of associates .....					(798)
Income tax expense .....					71
Loss for the period .....					(1,253)
Segment assets .....	14,853	13,696	1,095		29,644
Investment in equity accounted investees .....	87				87
Unallocated assets .....				7,057	7,057
Total assets .....	14,940	13,696	1,095	7,057	36,788
Segment liabilities .....	9,983	10,948	694		21,625
Unallocated liabilities .....				11,015	11,015
Total liabilities .....	9,983	10,948	694	11,015	32,640

*All amounts in ISK million*

## Assets equity capital and liabilities

Teymi's total assets were ISK 36,788 million at year-end 2006, an increase of about ISK 1,091 million since 1 October 2006. The main changes from 1 October 2006 are due to the following factors:

- The purchase of Digital Island at ISK 2,050 million, increasing intangible assets and decreasing short-term receivables by ISK 1,400 million;
- The company's real estate holdings at recorded value of close to ISK 1 billion, were sold at the end of the year 2006;
- The company increased its shareholding in Hands Holding hf. in the period and recorded share of loss from the associate;
- Own shares were purchased for ISK 432 million;
- Short-term liabilities were converted into long-term liabilities by refinancing of the company;
- Foreign currency loss from long-term liabilities amounted to ISK 927 million.

Interest-bearing liabilities after cash from operations amounted to ISK 27.3 billion at the end of 2006. The equity ratio was 11.3% and the current ratio 0.51 at the end of 2006.

Following the aforementioned division of Dagsbrún hf., the share capital was divided between the two companies 365 hf. and Teymi hf. Teymi's share capital at 1 October 2006 stood at ISK 2,728.2 million. Shareholders are entitled to one vote per share at meetings of the company. During the period 1 October – 31 December 2006 the company bought own shares at nominal value of ISK 83 million. According to the balance sheet share capital amounted to ISK 2,645 million at the end of the year.

The reserve includes the accrued part of the fair value of stock options. This reserve is reversed if stock options are exercised or forfeited.

Foreign exchange differences arising on the translation of financial statements of foreign subsidiaries are recognised directly in a separate component of equity. When a foreign operation is disposed of, in part or in full,

the relevant amount in the translation reserve is transferred to profit or loss. Reserves are specified as stock option reserve of ISK 4 million and translation reserve of ISK 121 million.

Balance Sheet		
	31.12.2006	1.10.2006
<b>Assets</b>		
<b>Non-current assets:</b>		
Operating assets .....	4,981	5,475
Intangible assets .....	20,064	18,468
Investments in associates .....	2,703	1,210
Investments in other companies .....	152	169
Long-term receivables from associates .....	2,690	2,208
Deferred tax assets .....	884	910
Total non-current assets	31,474	28,440
<b>Current assets:</b>		
Inventories .....	497	575
Trade and other receivables .....	4,100	5,566
Short term receivables from associates .....	84	0
Cash and cash equivalents .....	633	1,116
Total current assets	5,314	7,257
Total assets	36,788	35,697
<b>Equity and liabilities</b>		
<b>Equity:</b>		
Share capital .....	2,645	2,728
Share premium .....	1,367	2,988
Reserves .....	125	9
	4,137	5,725
Minority interest .....	11	115
Total shareholders' equity	4,148	5,840
<b>Non-current liabilities:</b>		
Loans and borrowings .....	22,121	10,984
Deferred income .....	87	54
Total non-current liabilities	22,208	11,038
<b>Current liabilities:</b>		
Loans and borrowings .....	5,851	13,771
Obligation due to written put options on own shares .....	584	901
Trade and other payables .....	3,592	4,147
Deferred income .....	405	
Total current liabilities	10,432	18,819
Total liabilities	32,640	29,857
Total shareholders' equity and liabilities	36,788	35,697

*All amounts in ISK million*

## Cash flow

Net cash used in operations amounted to ISK 141 million, net cash used in investing activities amounted to ISK 1,056 million and net cash flow from financing activities amounted to ISK 713 million. Cash and cash equivalents at the end of 2006 amounted to ISK 633 million. Sale of real estate, purchase of broadcasting network and refinancing influenced the balance sheet significantly as well as the cash flow in the period.

## Statement of Cash Flows

1.10 - 31.12 2006

**Cash flows from operating activities:**

Cash generated from operations before interests and taxes .....	421
Interest income received .....	107
Interest expenses paid .....	(644)
Income tax paid .....	(25)
<b>Net cash used in operating activities</b> .....	<b>(141)</b>

**Cash flows from investing activities:**

Dividends received from subsidiaries .....	55
Proceeds from sale of operating assets .....	202
Acquisition of property, plant and equipment .....	(406)
Acquisition of intangible assets .....	(144)
Acquisition of associates .....	(600)
Change in long-term receivables .....	(163)
<b>Net cash used in investing activities</b> .....	<b>(1,056)</b>

**Cash flows from financing activities:**

Purchases of own shares .....	(334)
Proceeds from non-current borrowing .....	2,207
Repayment from non-current borrowing .....	(811)
Short term borrowings .....	(349)
<b>Net cash from financing activities</b> .....	<b>713</b>

<b>Net decrease in cash and cash equivalents</b> .....	<b>(484)</b>
<b>Cash and cash equivalents at 1 October</b> .....	<b>1,116</b>
<b>Translation difference</b> .....	<b>1</b>
<b>Cash and cash equivalents at 31 December</b> .....	<b>633</b>

**Investment and financing without cash-flow effect:**

Acquisition of property .....	(1,400)
Sale of property .....	1,123
Acquisition of associates .....	(1,515)
Short-term payables .....	1,400
Proceeds from non-current borrowing .....	15,092
Repayment of loans and borrowings .....	(5,010)
Short-term borrowings .....	(9,196)
Interest .....	(262)
Purchases of own shares .....	(232)

*All amounts in mISK*

## 9 Other information

### 9.1 Documents incorporated by reference

For the life of the Securities Note, the following documents, which are cited in the Securities Note, shall be deemed to be incorporated in and to form part of this Securities Note.:

- Annual Financial Statement for Teymi hf. 2006 (covering three months period from 1 October to 31 December 2006). The auditors' Report for Teymi hf. is part of the annual reports.
- The Issuer's Articles of Association.

Copies of the above documents can be obtained at the Issuer's head offices and on its website ([www.teymi.is](http://www.teymi.is)).

### 9.2 Documents on display

For the life of the Securities Note, the following documents are available for viewing as follows:

- The Registration Document published 20 November 2006, may be viewed on Teymi's website [www.teymi.is](http://www.teymi.is) and on the news section of the ICEX website [www.news.icex.is](http://www.news.icex.is). The Icelandic Stock Exchange has scrutinised and approved the aforementioned document.
- Teymi hf.'s Articles of Association may be obtained from Teymi hf.'s website [www.teymi.is](http://www.teymi.is) and from the news section of the ICEX website [www.news.icex.is](http://www.news.icex.is).
- Teymi's 2006 Annual Financial Statement (covering three months period from 1 October - 31 December 2006) may be obtained from Teymi hf.'s website [www.teymi.is](http://www.teymi.is) and from the news section of the ICEX website [www.news.icex.is](http://www.news.icex.is)

