Skipti

Prospectus | March 2008

KAUPTHING BANK

PROSPECTUS

This Prospectus is published on 4 March 2008.

This Prospectus has been approved by the OMX Nordic Exchange Iceland hf. (OMX ICE) on behalf of the Financial Supervisory Authority in Iceland. It was prepared for the primary listing of Skipti hf.'s shares on the OMX ICE Main Market.

This Prospectus consists of the following separate documents:

- a Summary, published on 4 March 2008;
- a Share Securities Note, published on 4 March 2008; and
- a Share Registration Document, published on 4 March 2008.

This Prospectus is published in Acrobat Adobe format on Skipti hf.'s website (www.skipti.is). The Prospectus can be obtained from Kaupthing Bank hf.'s website (www.kaupthing.is). Additionally, from 5 March 2008, a hard copy can be obtained from Skipti's headquarters at Ármúli 25, 108 Reykjavík, Iceland and from Kaupthing Bank's headquarters at Borgartún 19, 105 Reykjavík, Iceland. This Prospectus is available for twelve months from publication which is the period in which it is valid.

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SUMMARY

Notice to investors

The following summary should be read as an introduction to the Prospectus and is qualified in its entirety by the more detailed information in the Prospectus and the appendices appearing elsewhere in this Prospectus. Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor.

In case a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might have to bear the cost of translating the Prospectus before legal proceedings are initiated.

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

The Prospectus concerns the primary listing of all issued share capital of Skipti hf., consisting of 7,368,421,053 issued shares with a nominal value of ISK 1 per share, on the OMX Nordic Exchange Iceland hf. (OMX ICE) Main Market and a share offering of 2,210,526,316 shares or 30% of the total share capital.

The total proceeds from the share offering are expected to range from ISK 14,678 million to ISK 17,905 million. In total, 30% of Skipti's total issued shares are to be offered. Kaupthing Bank hf., with its registered office at Borgartún 19, Reykjavík will offer 2,046,376,398 and Exista hf., Ármúli 3, Reykjavík will offer 164,149,918 of the offered shares. All shares in the share offering are to be sold at the same price which may range from ISK 6.64 per share to ISK 8.10 per share. All shares offered in this share offering are existing shares owned by the Offerors. The share offering is not underwritten.

Parties involved in the share offering described in this Prospectus

Issuer:

Skipti hf.
Id-No. 460207-0880 Address: Ármúli 25, 108 Reykjavík, Iceland

Offerors:

Kaupthing Bank hf.
Id-No. 560882-0419 Address: Borgartún 19, 105 Reykjavík, Iceland

Exista hf.
Id-No. 610601-2350, Address: Ármúli 3, 108 Reykjavík, Iceland

Manager of offering and admission to trading:

Kaupthing Bank hf. – Investment Banking
Id-No. 560882-0419 Address: Borgartún 19, 105 Reykjavík, Iceland

Summary of the Offering

A total of of 2,210,526,316 shares or 30% of the total share capital of Skipti will be offered. Therefore the Offering will constitute a sale of up 2,210,526,316 shares. The offering price may range from ISK 6.64 per share to ISK 8.10 per share and the final Offer Price will be formally determined by the Offerors through the bookbuilding process. From 10:00 GMT on 10 March 2008 to 16:00 GMT on 13 March 2008 (the "Offer Period") the Offered Shares will be offered for purchase by the Offerors through the Manager.

Reasons for the Offering

In addition to the conditions set in relation to the privatisation of Landssími Íslands hf., described in the chapter on "Admission to trading", it is the view of Skipti that a listing on the OMX ICE will be beneficial for the company and its future development. Skipti already has a broad shareholder base but will be able to reach new investors through the listing which will therefore facilitate access to the capital markets in the future. The liquidity of Skipti's shares will increase and the shares can better be used as currency in relation to future acquisitions. Price formation also becomes more efficient as the market value of the company will be decided through the daily trading of shares. The board of directors and the management of Skipti therefore believe that a listing on the OMX ICE is appropriate and will be beneficial for Skipti in implementing its strategy and reaching its targets in terms of further growth and expansion.

Process of the share offering

The share offering will be to members of the public in Iceland and institutional investors in Iceland and to potential institutional investors in other jurisdictions where the Offered Shares may lawfully be sold. The offered shares will not be offered in jurisdictions where such offering would need additional registration.

From 10:00 GMT on 10 March 2008 to 16:00 GMT on 13 March 2008 (the "Offer Period") the Offered Shares will be offered for purchase by the Offerors through the Manager. No orders will be accepted after the Offer Period has finished. The Offerors may decide to cancel the Offering at any time prior to OMX ICE's notification of admission to trading, and at latest at 9:45 GMT on 17 March 2008, based on any factors the Offerors may deem appropriate such as extreme adverse market development. Should the Offerors decide, on the basis of the foregoing, to cancel the Offering, all subscriptions for the Offered Shares then received shall be deemed to be null and void.

Offering to institutional investors and members of the public

The Offering described in this Share Securities Note will constitute a public offering to Icelandic investors pursuant to Article 43 of the Icelandic Securities Act no. 108/2007, and an institutional offering to potential investors in Iceland and other jurisdictions where the Offered Shares may lawfully be sold.

There are two methods for subscribing for the shares in the offering to members of the public in Iceland and institutional investors in Iceland, depending on whether the submission for the order is up to and including ISK 25 million purchase value or whether it exceeds ISK 25 million purchase value. There is a minimum amount of ISK 0.1 million and no maximum amount which a potential investor in Iceland may subscribe for in the offering to members of the public in Iceland and institutional investors in Iceland, although the method for submission of bids will depend on the value of the order. Potential institutional investors in jurisdictions other than Iceland where the Offered Shares might lawfully be sold can only subscribe for shares by the method where the submission for the order exceeds ISK 25 million purchase value. There is no maximum amount which a potential investor in a jurisdiction other than Iceland where the Offered Shares might lawfully be sold can subscribe for, but the order must exceed a minimum amount of ISK 25 million purchase value.

Submission of orders for amounts up to and including ISK 25 million purchase value

Orders up to and including ISK 25 million purchase value are open to all individuals holding an Icelandic ID-No. and all legal entities holding an Icelandic ID-No., if not prohibited by law. Multiple subscriptions cannot be submitted. For any single ID-No. there is only one web based subscription form. Those Kaupthing Bank hf. employees, including their families (dependent children and spouses (i.e. married partner, co-habitant and registered partner)) to which Kaupthing Bank hf.'s rules on proprietary securities trading, employee securities trading and separation of operating units etc. (pursuant to Article 6 of act 108/2007) apply, are only allowed to subscribe until 16:00 GMT on 10 March 2008.

Subscriptions for shares shall be made electronically via a special subscription form on the website of Kaupthing Bank, www.kaupthing.is for an Icelandic and English version. Before subscribing, an investor must identify himself/herself with login details on the subscription form as follows:

(A) by username and password of Kaupthing Online Banking or

(B) by ID-No. and a password ordered at the beginning of the internet subscription process and sent immediately to the e-mail address provided.

From 15 May 2008 a notification of allocation and payment instructions can be obtained from the website, using the same login details as when subscribing, or from Kaupthing Online Banking. The website will be open for two months after its launch.

From investors subscribing for over ISK 5 million, the Manager reserves the right to demand payment security which the Manager considers adequate.

Orders for amounts up to and including ISK 25 million purchase value are binding and cannot be altered or cancelled. Investors may qualify their bids by stating a maximum price per share in ISK at which they are willing to subscribe to the Offered Shares. If the Offer Price exceeds the maximum price per share stated in the application form for any part of the bid, none of the Offered Shares will be allocated to the investor for those parts of the bid where the Offer Price exceeds the maximum price per share stated in the application. Where no maximum price per share has been indicated, orders will be deemed to be made at the Offer Price. Orders shall be made for an aggregate purchase price rounded to the nearest ISK.

Kaupthing Bank's Consultants will provide information on the share offering by telephone on +354 444 7000, between 9:00 GMT and 20:00 GMT during the offer period.

Submission of orders for amounts exceeding ISK 25 million purchase value

Investors who wish to apply for subscription for amounts of more than ISK 25 million purchase value should indicate their interest to the Manager during the Offer Period by e-mail (iscapitalmarkets-equitysales@kaupthing.com), facsimile (+354 444 7319), phone (+354 444 6000) or other comparable means of communications. During the Offer Period, such investors can continuously change or withdraw their declarations of interest but such indications of interest become binding applications upon the conclusion of the Offer Period. This process (the "bookbuilding process") will determine the Offer Price within the price range stated above, and this Offer Price shall then apply to all shares offered. Immediately following the determination of the Offer Price each investor will be allocated Offered Shares in number and at the Offer Price within the limits of such investor's most recently submitted or adjusted declaration of interest. All orders made at a price equivalent to or higher than the Offer Price will be settled at the Offer Price following such allotments.

Allocation and reduction

If the total number of Shares ordered in the Offering exceeds the number of Offered Shares a reduction will be made as follows:

- in respect of orders by investors for amounts up to and including ISK 25 million purchase value, the reduction will be made so that the allocation to individual investors will be proportionate to their share in the aggregate amount of orders up to and including ISK 25 million purchase value; and

- in respect of orders by investors for amounts exceeding ISK 25 million purchase value, individual allocations will be made. These will be determined at the sole discretion of the Offerors. The Offerors reserve the right to reduce investors' orders and allocate fewer shares than ordered should the Offering become oversubscribed, possibly through allocating proportionately fewer shares to some investors than others. This includes the Offerors' right to reject the subscription in full or in part, in case the investor does not subscribe for the amount of shares which he/she has been allocated during the bookbuilding process. The Offerors reserve the right to require documentation verifying the identity of each investor and the authenticity of each investor's orders and to make individual allocations if several orders are deemed to originate with the same investor.

Pricing, notification of allocation and payment instructions

The Offer Price will be determined by the Offerors through the bookbuilding process. The outcome of the bookbuilding process and the Offering will be published through OMX ICE, prior to 9:45 GMT 14 March 2008. The announcement will include the number of Offered Shares which have been subscribed for, the Offer Price and the proceeds of the Offering, along with the aggregate number of orders received.

For subscriptions made through Kaupthing's website, notification of allocation and payment instructions can be obtained from 15 March 2008, from the website, using the same login details as when subscribing. In each subscriber's Icelandic online bank, an electronic payment note for the allocated number of shares can also be obtained from that date. This note will be payable via Icelandic banks and savings banks and at Icelandic online banks. Payment instructions will not be sent to subscribers, unless the subscribers so request when they submit their offer.

For subscriptions made directly to the Manager, the Manager will notify before 12:00 GMT on 14 March 2008 those subscribers to whom an allocation is made and advise them of how payment for the Offered Shares shall be made. Subscription in the share offering shall be delivered after the allocation of subscription and no later than 16:00 GMT on Friday 14 March 2008. All binding subscriptions shall be made on the "Subscription form". In the order for the investor's subscription to be valid the investor must sign the "Subscription form". An investor on behalf of legal entitities guarantees that he/she is authorised to assume on behalf of the legal entity the obligations contained in the "Subscription form". The "Subscription form" shall be delivered in an envelope marked "Skipti - Share offering" to the front desk of Kaupthing Bank hf. at Borgartún 19 in Reykjavik or by fax on +354 444 6809 or by e-mail at skipti.subscription@kaupthing.com. If sent by fax or e-mail, verification of the transmission shall be received by the Manager prior to the deadline specified above and the original then mailed to the Manager in an envelope marked according to the above.

If the subscription by the Investor is approved then the Investor shall pay the committed amount to Kaupthing Bank hf. no sooner than after 10:00 GMT on 19 March 2008 and no later than 16:00 GMT on Wednesday 26 March 2008 into account number 300-26-1020, ID-No. 560882-0419. If payment is not received on time or in the correct manner the debt may be collected in accordance with applicable laws, including penalty interest and other costs of collection. Instead of resorting to collection measures, the Offerors unilaterally reserve the right to invalidate the unpaid subscription without warning or notice or allocate it to a third party.

Delivery against cash payment for the offered shares pursuant to the share offering will take place before 17:00 GMT on 26 March 2008. Such offered shares will be delivered in book-entry form on the closing date to the investor's accounts with ISD.

Settlement is expected to take place before 17:00 GMT on 26 March 2008 subject to having received payment.

Admission to trading will not take place until after the notification of allotment. Payment for all Offered Shares shall be made no later than 16:00 GMT on 26 March 2008 according to the payment instructions. A receipt for purchasing and payment will be sent to each subscriber when his/her payment has been received in the correct manner. If payment is not received on time or in the correct manner the debt may be collected in accordance with applicable laws, including penalty interest and other costs of collection. Instead of resorting to collection measures, the Offerors unilaterally reserve the right to invalidate the unpaid subscription without warning or notice or allocate it to a third party.

Proceeds and costs

The proceeds of the Offering will go to the Offerors. As no new shares are being issued the Issuer will not receive the proceeds. The amount of proceeds will depend on the book building price determined and the number of shares allocated and sold.

The Issuer will bear the cost of admission to trading and the Offering, including charges from OMX ICE, advisory fees to the Manager and costs related to due diligence report prepared for the Manager. This total cost is expected to amount to ISK 300 million.

Market making

Kaupthing Bank hf. and Glitnir Bank hf. will act as market makers for Skipti on the OMX ICE. The aim of the market making agreements between Skipti and the banks is to improve liquidity of the Issuer's shares on OMX ICE in order to promote the development of a market price and to encourage effective and transparent price formation. The market makers are each obliged to provide liquidity for up to ISK 150 million per day. The market making process will begin on 27 March 2008.

Admission to trading

When Landssími Íslands hf. (now Skipti) was privatised in the summer of 2005, one of the conditions set by the Icelandic government was that Landssími Íslands hf. would be listed on the ICEX (now OMX ICE) before year-end 2007 and that no less than 30% of the Company's total share capital would be offered to the public or other investors. The Ministry of Finance granted an extension until the end of first quarter of 2008 due to Skipti's participation in the privatization process of Telekom Slovenije d.d. The privatisation committee decided on 3 March 2008, not to propose to the government the acceptance of Skipti's offer. Furthermore, Skipti's offer lapsed at GMT 16:00 on 3 March 2008.

The Investor Consortium that purchased Síminn in the privatisation in 2005 agreed that Kaupthing Bank would offer its shares in the Company in the Offering and that any additional shares required to reach the 30% threshold would be offered by Exista.

Skipti´s Annual General Meeting held on 27 February 2008 approved the proposal to seek admission to trading of the Issuer's shares. OMX ICE has agreed to the listing of Skipti´s entire issued shares on the OMX ICE. This listing satisfies this condition and is in accordance with the sale and purchase agreement signed at the time of the privatisation.

The admission to trading is expected to take place on 19 March 2008 which will then be the earliest date on which the shares will be admitted to trading on OMX ICE. The date of admission to trading, which may occur later, will be announced before 10:00 GMT at least one day in advance by OMX ICE.

The board of directors of Skipti has requested that SKIPTI becomes the symbol for Skipti on OMX ICE and the ticker symbol for the Issuer's shares in the OMX ICE trading system. The ISIN code is IS0000015089.

Skipti aims at being selected for the OMXI15, which is an index comprising the 12-15 largest and most liquid companies admitted to trading on OMX ICE.

Skipti's shares have not been previously listed on a regulated market but Landssími Íslands hf., Skipti's predecessor was listed on the ICEX Alternative Market from 2001 to 2005. Neither Skipti nor its subsidiaries have plans to seek listing on other stock exchanges.

Risk factors

Investing in shares is subject to numerous risks. The following is a summary of those issues 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. Investors are advised to study the chapters on "Risk factors" in both the Shares Securities Note and Share Registration Document, dated 4 March 2008.

Risks in the Issuer's operations:

- Technical risk. As Skipti´s main operations are in telecommunications and information technology, the company is very dependant on the use of technology in its operations. Changes in technology can have a number of effects on Skipti's operations and profitability.

- Market risk can involve general economic conditions and inflation, development of competition in Skipti´s markets, financial risk that can relate to interest rates, ability to fund operations and movements in currencies.

- 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. It can also involve various legal risks as Skipti and its subsidiaries are to a large extent operating in regulated markets and two of Skipti's subsidiaries are deemed to have significant market position.

Risks related to investment in the Issuer's shares

- Equity investments involve a variety of risks.

- Securities regulation. Those investing in the Issuer's shares may thereby become subject to such public regulation relating to securities transactions, such as rules relating to takeover bids, public disclosure of ownership stakes, etc.

- Dilution. Further share capital increase can dilute shareholdings.

- Shareholder structure. A change of ownership can occur without prior warning.

Information about the Issuer

Skipti hf. is an Icelandic company which was incorporated on 31 October 2006 when Síminn hf. was de-merged into Skipti hf, the parent company, and Síminn hf. which became Skipti's subsidiary, but the Company traces its history back to 1906 when The Icelandic State Telephone Service was founded.

A few important dates in the history of the company are:

1906 A submarine telegraph cable was laid from Scotland, through the Faroe Islands, to the east coast of Iceland.

1932 The first automatic telephone exchanges in Iceland were opened.

1962 The submarine cable, Scotice, between Iceland and Scotland was opened. In connection with the cable, telex services were established in Iceland.

1986 Started operation of its NMT mobile network.

1994 Went live with its GSM network.

1998 The telephone and postal services were separated and Landssími Íslands hf. (later Síminn hf.). was founded and the telecommunications market was liberalised.

1999 ADSL operations began.

2001 Landssími Íslands hf. was listed on the ICEX Alternative Market.

2004 IPTV operations began and Landssími Íslands acquired Skjárinn, an Icelandic TV broadcaster.

2005 Landssími Íslands hf. was privatised when the Icelandic government sold its 98.8% share of the equity and the name was later changed to Síminn hf. and the company was delisted from the ICEX Alternative Market.

2006 Established Sirius IT and acquired the governmental IT services from TietoEnator in Denmark, Norway and Sweden.

2007 Reorganization leading Síminn hf. to become a subsidiary of Skipti hf. and following that transaction Síminn was split into three companies, Fasteignafélagid Jörfi ehf,, Míla ehf, and Síminn hf. Fasteignafélagid Jörfi ehf. was sold in late 2007. 3G service starts.

Major shareholders

On 28 February 2008 there were 1,037 shareholders in Skipti. The ten largest shareholders owned a total of 97.9% of the Company's issued share capital.

	Activity	Shares	Ownership
Exista hf.	Financial Services	3,216,111,207	43.6%
Kaupthing Bank	Bank	2,046,376,398	27.8%
Lífeyrissjódur Verslunarmanna	Pension Fund	589,620,388	8.0%
Gildi lífeyrissjódur	Pension Fund	589,620,388	8.0%
Stafir lífeyrissjódur	Pension Fund	160,897,780	2.2%
Sameinadi Lífeyrissjódurinn	Pension Fund	160,805,560	2.2%
MP Fjárfestingarbanki hf	Investment Bank	142,949,711	1.9%
Imis ehf	Holding Company	142,938,276	1.9%
Lambi ehf.	Holding Company	119,115,229	1.6%
Thrædir ehf.	Holding Company	42,881,483	0.6%
Ten largest		7,211,316,420	97.9%
Other 1,027 shareholders		157,104,633	2.1%
Total Share Capital		7,368,421,053	100.0%

Kaupthing Bank will offer its entire 27.8% stake in this Offering and Exista 2.2% of the total share capital.

Related party transactions

The Board of Skipti believes that all of Skipti's related party transactions are conducted at arm's length, both transactions between entities within the consolidation and transactions between any of the entities and related parties not part of the consolidation. Skipti engages in and expects to continue to engage in transactions with its affiliates, including the transactions described below. Entities within the consolidation purchase services from each other when possible. The terms of such transactions are comparable to Skipti's business with external customers. The following is a summary of Skipti's related party transactions:

- Skipti sold its entire shareholding in Fasteignafélagid Jörfi ehf. to Exista Properties, a subsidiary of Exista, Skipti's largest shareholder for a total consideration of ISK 4,425 million. The profit of the sale amounted to ISK 1,396 million after taxes.

- Skipti has entered into various loan facilities, including but not limited to guarantees, with Kaupthing, its second largest shareholder, in addition to various service agreements, including but not limited to bank transactions, debt management and securities trading.

- All of Skipti's insurance policies are placed with Vátryggingarfélag Íslands hf. (VÍS), Exista's subsidiary, Skipti's largest shareholder.

- Síminn provides Exista hf. and Kaupthing Bank hf. with telecommunications services.

- Skipti sold Gizmó ehf., a company owned by a former employee, 46.5% of the share capital in Tæknivörur for ISK 200 million. Skipti extended a loan of ISK 150 million to the acquiror in addition to writing a call option on the remainder of Tæknivörur's share capital.

- Skipti has extended a loan in the amount of ISK 128 million to Thræðir ehf. and a guarantee of ISK 939 million to Farice ehf., two of Skipti's associates. Thræðir ehf. is majority owned by the VP's of Skipti and Síminn.

Statutory Auditors

The chartered accountants and registered auditor of Skipti are Deloitte hf. ID-No. 521098-2449, Smáratorg 3, 210 Kópavogur, Iceland. The auditor responsible for Skipti and Síminn, Skipti's predecessor, for the duration of the period of 2005-2007 has been Hilmar A. Alfredsson, ID-No. 120759-5159, of Deloitte hf.

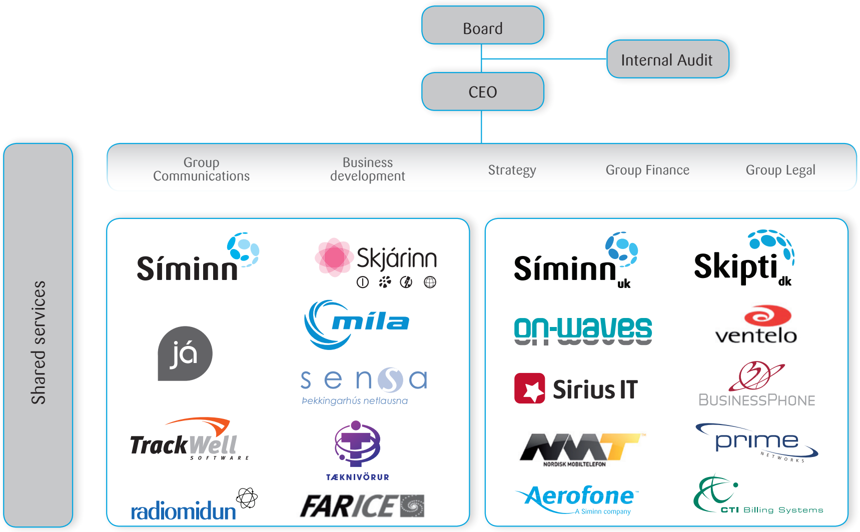
Business overview

Skipti is a holding company for a group of companies in the telecommunications and information technology industry. Skipti divides its operating companies into domestic and international businesses, with the domestic businesses containing operations in Iceland and international businesses including those outside of Iceland. Today Skipti operates domestically both on residential and corporate markets, but internationally on the corporate market.

Skipti offers comprehensive services in the field of telecommunications, internet, media/entertainment and electronics – or TIME for short, for residential customers. On the corporate market Skipti is an information and communication technology provider – or ICT for short. Skipti's business model aims at encompassing the whole value chain of its industries.

Skipti's goal is to maintain its leadership in TIME and ICT in the domestic market. Skipti will focus on external growth through strategic acquisitions of companies with presence on target markets. Following such acquisitions, Skipti intends to use its broad product offering from the domestic corporate market and its ability to act as a single source of supply for SME's ICT needs. This will facilitate quick market entry on target markets, enable cross-selling of products, stimulate further revenue growth and exploit the opportunity that is emerging with the convergence of traditional telecom services and information technology.

Skipti's headquarters are in Reykjavik, Iceland but Skipti also has offices in the UK and Denmark. The businesses are supported by five divisions on group level: Business Development, Group Legal, Group Communications, Group Finance, Strategy and Shared services which sell finance and HR services to Skipti's subsidiaries. The structure is illustrated in the following diagram:



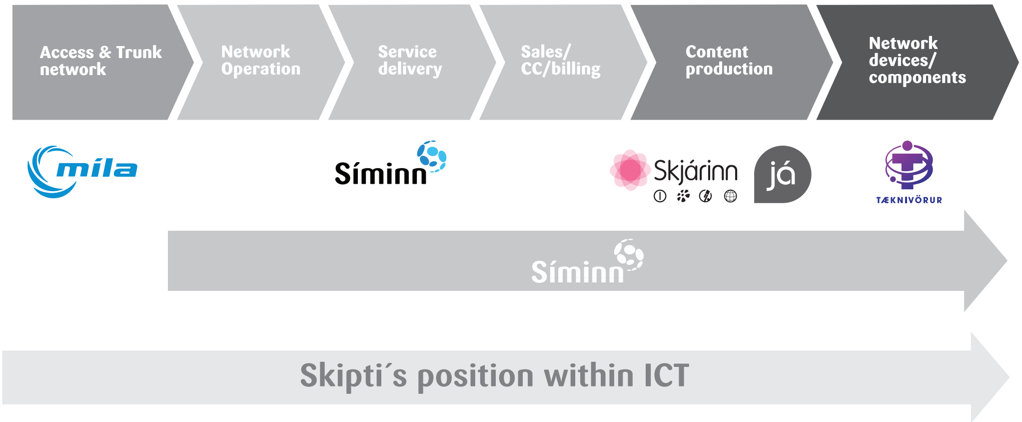
The average number of full-time employees for 2007 at Skipti and its subsidiaries where Skipti owns more than 50% of the shares was 1,748. Síminn has the largest number of employees within the Group, or just under 40% of all of Skipti's employees. Most of the employees work in Iceland, but over 28% of Skipti's employees now work outside of Iceland, with Skipti's largest subsidiaries; BusinessPhone and Ventelo employees in Denmark, Aerofone employees based in the UK and Sirius IT employees spread across Denmark, Sweden and Norway.

The CEO of Skipti is Brynjólfur Bjarnason. The CEO is responsible for the Company's strategy, operations and finance and represents the Company in all matters regarding normal operations. Other members of the senior management include; Kristín Gudmundsdóttir, CFO of Skipti, Páll Ásgrímsson, CLO of Skipti, and Sævar Freyr Thráinsson, CEO of Síminn.

The board of directors promotes the Company's success and supervises its management and overall operation. The board, together with the CEO, take the initiative in formulating the company's strategy, both for the short term and the long term. The chairman of the board of Skipti is Lýdur Gudmundsson, and other board members are Rannveig Rist, Sigurgeir Brynjar Kristgeirsson, Erlendur Hjaltason, Panikos J. Katsouris and Hildur Árnadóttir.

Domestic business

On the domestic residential market, the aim is to have a broad view of the whole value chain in the telecommunication industry and find opportunities to grow in each sector within TIME. Síminn, in collaboration with other subsidiaries within Skipti's group acts as the service provider towards the customer for the whole product offering within TIME. The picture below shows Skipti's position within the TIME value chain. Míla provides the foundation for the services with its Access & Trunk network. Síminn is the "enabler" by providing the network operation, service delivery and everything regarding sales/CC/billing. Skjárinn and Já provide the content to the chain while Tæknivörur brings to it the network devices and components.



In the ICT market, Skipti serves its customers as a "one stop-shop" for various ICT needs, such as management of different systems that ensure they can make phone calls, run Blackberry services, access the internet and data, manage the network, take part in tele- and videoconferences, provide staff with work-from-home access, backup data and much more. With the eminent convergence of communications and IT solutions this is now changing. There is a need emerging in the market for service providers positioning themselves as 'solutions providers' by offering more consultative and professional services.

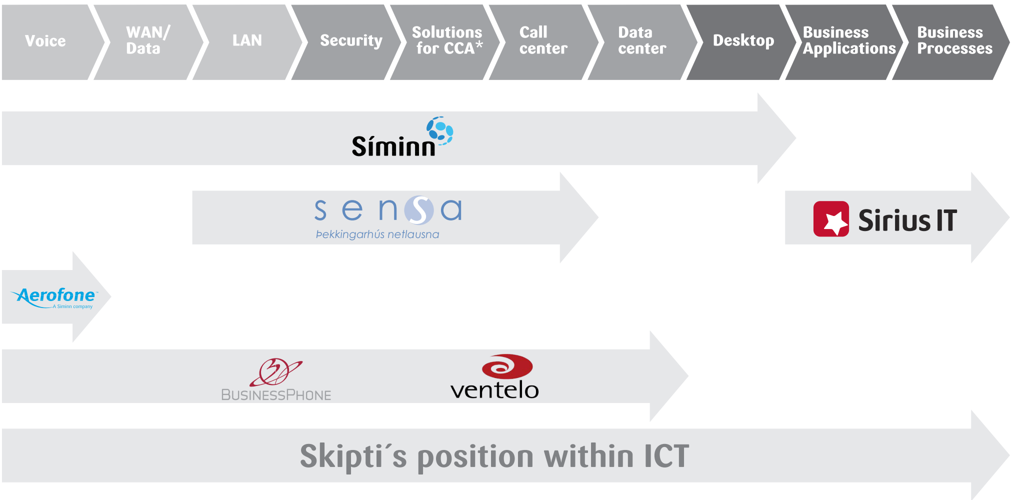
Skipti has also been moving higher in the value chain by developing knowledge and experience in the IT sector in order to provide comprehensive consulting and enhanced services to its customers. In addition it provides Síminn with a better insight into customer needs, which will allow Síminn to lower the customer's total cost of ownership (TCO) and build a personal business relationship with customers that is beneficial for both parties.

International business

Skipti operates internationally through subsidiaries in the UK, Denmark, Sweden and Norway and its operations are currently focused on the corporate market.

Skipti utilises its knowledge and expertise in servicing the corporate market in Iceland in its international expansion where the focus is to build a comprehensive ICT service offering for small and middle-sized companies that have similar needs and requirements as Skipti's domestic customers. Skipti's strengths entail services provided to companies of this size since the majority of Skipti's current Icelandic customers fall under this category. The domestic strategy of the corporate market is therefore the foundation of Skipti's international strategy.

The following diagram provides an overview of Skipti's position within the ICT value chain and which services its subsidiaries are capable of providing on domestic and international markets.



Financial information

The tables below highlight the key items from Skipti's and its predecessor's profit and loss and balance sheet statements for the full financial years ending on 31 December 2005, 2006, and 2007.

Consolidated Income Statement 2005 - 2007

ISK thousands	2007 1.1 - 31.12	2006 1.1 - 31.12	2005 1.1 - 31.12
Net sales	32,719,079	25,030,127	21,641,489
Other operating income	638,690	265,013	399,943
Cost of sales	(18,972,885)	(13,671,369)	(11,923,315)
Operating expenses	(9,093,817)	(7,018,256)	(6,511,884)
EBITDA	9,493,092	8,442,719	7,453,642
Depreciation and Amortisation	(4,202,025)	(3,837,204)	(3,847,409)
EBIT	5,291,067	4,605,515	3,606,233
Financial income (expenses)	(3,274,070)	(8,936,267)	692,214
Share of profit (loss) in associates	(26,003)	(6,435)	(30,736)
Profit (loss) before tax	1,990,994	(4,337,187)	4,267,711
Income tax	(304,933)	777,461	(235,622)
Discontinued operations	1,395,755	0	0
Profit (loss) for the period	3,081,816	(3,559,726)	4,032,089

Figures in 2005 and 2006 are for Síminn, Skipti's predecessor.

Net sales for 2007 amounted to ISK 32,719 million and increased by 30.7% compared to 2006. Aside from organic growth in all of Síminn's services, except fixed line telephony, the operations of Aerofone, BusinessPhone, Ventelo and Sensa were acquired by Skipti in 2007 and Sirius IT acquired in November 2006.

The domestic operations represent 79.7% of combined net sales and other operating income generated by Skipti in 2007 while 20.3% of the revenues were generated by international operations. In 2006 only 4.1% of the total revenues were generated from international operations.

Operating expenses for 2007 increased by 29.6%, partly due to costs related to acquisitions in 2007. The 2007 EBITDA was ISK 9,493 million, representing a margin of 28.5%, compared with a 33.4% EBITDA margin in 2006. The decline in EBITDA margin is mainly explained by increased activity of Skipti in the IT sector.

Profit for the year 2007 was ISK 3,082 million compared to a loss of ISK 3,560 million in 2006 and a profit of ISK 4,032 million in 2005. The loss in 2006 is mainly due to exchange losses of ISK 5,773 million in 2006. After tax profit in 2007 from continuing operations amounted to ISK 1,686 million and the sale of Fasteignafélagid Jörfi, generated a one-off profit after tax of ISK 1,396 million.

Consolidated Balance Sheet 2005 - 2007

ISK thousands	2007 31.12	2006 31.12	2005 31.12
Non-current assets	85,045,587	81,099,461	78,016,978
Current assets	12,595,564	7,807,277	5,238,426
Total assets	97,641,151	88,906,738	83,255,404
Equity	32,756,554	29,446,873	32,801,052
Non-current liabilities	50,739,860	50,903,244	44,601,880
Current liabilities	14,144,737	8,556,621	5,852,472
Total equity and liabilities	97,641,151	88,906,738	83,255,404

Figures in 2005 and 2006 are for Síminn, Skipti's predecessor.

Síminn's balance sheet changed substantially in 2005, when Síminn was privatised. Equity and liabilities increased considerably, and on the asset side goodwill was recognised due to the business combination of Skipti ehf. Íslenska sjónvarpsfélagid ehf. and Síminn hf. Assets, including goodwill, have continued to grow with Skipti's acquisitions of telecommunications and IT services companies in the period of 2005-2007.

The increase in current assets between 2006 and 2007 can be explained by the sale of Fasteignafélagid Jörfi ehf. as the cash balance rose. Accounts payables and other current liabilities have also increased.

The equity ratio was 33.5% at year-end 2007 compared to 33.1% at year-end 2006. Subsequent to the admission to trading, Skipti will issue further shares with a combined value of up to ISK 1,189 million to a number of parties as consideration for acquisitions made by Skipti and its subsidiaries.

Liabilities were ISK 64,885 million at 31 December 2007 compared to ISK 59,460 million at the end of 2006. Skipti made ISK 3,263 million in instalments on non-current liabilities in 2007. New borrowings were ISK 3,085 million which were mainly related to the acquisition of Ventelo.

Non-current borrowings were ISK 50,435 million in 31 December 2007 compared to ISK 50,747 million on 31 December 2006. The depreciation of the Icelandic króna in 2006 increased the book value of Skipti's borrowings from the previous year. For 2007, borrowings have remained stable and currently Skipti has hedged over 70.0% of its foreign currencies exposure via short-term contracts.

The increase in bank loans in 2007 is related to acquisitions. The company has moderate repayments of facilities in the years 2007-2012 and the first significant refinancing need is post 2012.

The Company generated ISK 9,014 million in cash from operations in 2007, which is a 4.2% increase from 2006. Cash generated by operations remains strong at the Company. The increase in leverage following the privatisation was considerable since non-current liabilities increased from ISK 4,361 million in 2004 to ISK 44,082 million in 2005. The Company has coped well with the increased leverage since 2005 and has not made any changes to its capital expenditure strategy.

Consolidated Cash Flow Statement 2005 - 2007

ISK thousands	2007	2006	2005
	1.1 - 31.12	1.1 - 31.12	1.1 - 31.12
Cash flow from operating activities			
Cash generated by operation	9,014,477	8,654,280	7,518,989
Net cash from operating activities	6,890,515	6,706,310	6,190,236
Investing activities	(4,239,004)	(5,183,382)	(2,747,391)
Financing activities	1,610,903	(1,091,715)	(5,803,563)
Increase (decrease) in cash and cash equiv.	4,262,414	431,213	(2,360,718)
Cash and cash equiv. at the end of the year	5,269,137	1,053,380	464,870

Figures in 2005 and 2006 are for Síminn, Skipti's predecessor.

Working capital, capitalisation and indebtedness

The following table shows Skipti's actual capitalisation as of 31 December 2007. Skipti will not receive any proceeds from the sale of the offered shares described in this Share Securities Note, since the proceeds will be received by Kaupthing Bank and Exista as the Offerors. There has been no material change in Skipti's consolidated capitalisation since 31 December 2007.

ISK million	31 December 2007
Total Current debt	14,145
- Guaranteed	0
- Secured	4,837
- Unguaranteed/ Unsecured	9,308
Total Non-Current debt (excluding current portion of long –term debt)	50,740
- Guaranteed	0
- Secured	34,437
- Unguaranteed/ Unsecured	16,302
Shareholder's equity:	32,757
a. Share capital	7,365
b. Legal reserves	1,384
c. Other reserves	-366
d. Retained earnings	24,005
e. Minority interest	369
Total	97,641

Net indebtedness

ISK million	31 December 2007
A. Cash	5,269
B. Trading securities	0
C.Other cash equivalent (detail)	0
D. Liquidity (A) + (B)+(C)	5,269
E. Current Financial Receivable	6,193
F. Current Bank debt	2,051
G. Current portion of non current debt	2,785
H. Other current financial debt	9,308
I. Current Financial Debt (F)+(G)+(H)	14,145
J. Net Current Financial Indebtedness (I)-(E)-(D)	2,683
K. Non current Bank loans	34,562
L. Bonds Issued	15,851
M. Other non current loans	328,
N. Non current Financial Indebtedness (K)+(L)+(M)	50,740
O. Net Financial Indebtedness (J)+(N)	53,423

Profit forecast for 2008

A forecast for total consolidated revenues and EBITDA has been made for 2008. Total revenues are expected to be ISK 36,000-38,000 million, which is a 8-14% increase from 2007, and EBITDA is expected to be ISK 10,300-10,800 million, which represents a 8.5-14.0% growth from 2007.

Profit forecast 2008

ISK million	2008E
Total revenues	36,000-38,000
EBITDA	10,300-10,800

The projective financial information for 2008 is based on assumptions of an organic growth rate of approximately 6-7%. The estimates for 2008 have been prepared in accordance with Skipti's normal budgeting procedures where the focus is on the profit and loss account, balance sheet and cash flow performance.

Additional information

Share capital

The total number of issued shares in Skipti hf. is 7,368,421,053.

Skipti holds 3,274,664 of its own shares which equal approximately 0.0444% of total issued shares. By law, the Issuer's own shares do not have voting rights. According to the Issuer's Articles of Association, the board of directors of the Issuer is authorised to purchase own shares in the Issuer to the extent permitted by law and in compliance with the other provisions of the Issuer's Articles of Association. The price paid for the shares shall be no lower than the nominal value of the shares and no higher than 20% above the market price of the shares at any time. The authorisation, approved by the Annual General Meeting on 27 February 2008, is valid for 18 months from its approval at a shareholders' meeting.

Memorandum and Articles of Association

Issue and share characteristics

All shares are issued in the name of the holder. All the shares carry the same rights. Shares are divided into the multiple of ISK 1.

The board of directors of the Issuer has been authorised, at the Annual General Meeting held on 27 February 2008, to increase the share capital of the Company by up to ISK 1,500,000,000 in nominal value through the issue of new shares. This authorisation will last for 18 months and the remainder of the previous authorisation to increase the share capital has expired. This authorisation may be exercised, inter alia, for the acquisition of, or trading in, shares in foreign or, as applicable, domestic companies. The shareholders have waived their pre-emptive rights to these shares. The board of directors is entrusted with the further details of the increase. Pursuant to a number of transactions entered into by the Issuer and its subsidiaries, further details of which are set out in chapter 16 "Major shareholders" of the Share Registration Document dated 4 March 2008, the Company has contractual obligations to deliver shares with a combined market value of ISK 1,189 million to counterparties of which ISK 840 million will be by issuing new shares and the remainder either by the issuance of new share or by delivering own shares. This will take place following the proposed admission to trading.

The board of directors of Skipti has requested that SKIPTI be the symbol for the Issuer on OMX and the ticker symbol for the Issuer's shares in the OMX ICE trading system.

Rights

At shareholders' meetings, each share carries one vote. No voting rights are attached to shares owned by the Company in itself. Shareholders have pre-emptive rights to increased share capital in proportion to their holdings in the Company and within the time limits specified in the decision to increase the Company's share capital. To the extent that existing shareholders do not exercise their pre-emptive rights, other shareholders shall be granted increased subscription rights.

The shareholders' pre-emptive 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. The shareholders have already waived their pre-emption rights in respect of the authorised increase in share capital by up to ISK 1,500,000,000 referred to above.

Dividend policy

The Issuer's board of directors has not set a dividend policy for Skipti.

Right to dividends

A resolution on the distribution of dividends shall be made at an annual general meeting which shall be held before the end of May each year. According to Article 7 of the Issuer's Articles of Association, dividends shall be paid to those that are registered as owners in the Register of Shares.

According to Article 7 of the Issuer's Articles of Association, the Issuer assumes no responsibility for payments or notices being lost owing to negligence in notifying the Issuer of changes of ownership or address. Therefore each shareholder shall inform the Register of Shares of his/her address and in the event that shareholders neglect to provide information of such address, they shall neither have any claim towards the Issuer to receive any notice or payments which have been misplaced. However, 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.

Mandatory takeover bid rules

Exista hf. currently owns 43.6% of the share capital in Skipti hf, exceeding the mandatory takeover bid threshold by 3.6 percentage points. According to the FME's published interpretation of Article 100 of the Icelandic Act on Securities Transactions no. 108/2007, the obligation to issue a takeover bid does not arise due to a single shareholder or a shareholder acting in concert with others having legal control over a company at the time of listing on a regulated stock exchange. This exemption is subject to the shareholding having been disclosed at the time of listing. The Issuer consequently assumes that as long as Exista does not acquire shares that increase its holding past the threshold of either 50%, 45% or 40% (in the last case after having first disposed of shares), Exista will not become obliged to issue a takeover bid for the remaining share capital of Skipti.

The Issuer also assumes that the obligation to issue a takeover bid does not arise in case of a cancellation of shares that results in the holding of Exista hf. exceeding the aforementioned thresholds.

Dissolution of the Company

Pursuant to the Issuer's Articles of Association, Article 27, proposals on the division or dissolution of the Company will be subject to the same provisions as amendments to the Articles of Association. Any decision on the dissolution of the Company shall be made by shareholders controlling at least two thirds of the Company's shares. A shareholders' meeting, which has made a lawful decision on the division or dissolution of the Company, shall also decide on how the assets of the Company should be disbursed and debts paid. The meeting shall also decide if the Company is to be divided by a public authority or a Winding-up Committee is elected in accordance with provisions in the Public Limited Companies Act. If a shareholders' meeting has decided on dissolution of the Company, it shall without delay be announced to the Register of Limited Companies. Otherwise, dissolution or a division of the Company, or a merger to another company shall be governed by the current Act on Public Limited Companies no. 2/1995 as the provisions are set out in Chapter XIII and Chapter XIV.

Documents on display

The following documents are on display, and are to be found in the Appendices to the Share Registration Document in this Prospectus:

- The Issuer's Articles of Association
- Skipti's audited consolidated annual financial statements for the financial year-ended 31 December 2007
- Síminn's audited consolidated annual financial statements for the financial year-ended 31 December 2006
- Síminn's audited consolidated annual financial statements for the financial year-ended 31 December 2005
- Merger plan in respect of the merger of Skipti ehf., Íslenska Sjónvarpsfélagid hf. and Landssími Íslands hf.
- Demerger schedule of Síminn hf. and Skipti hf.
- Demerger schedule of Síminn hf., Fjarskiptanetid ehf. and Jörfi ehf.

Copies of documents on display are to be found in Appendices to the Prospectus which consists of three documents: Summary, Share Registration Document and Share Securities Note. Copies of documents on display can also be obtained from the registered office of the Issuer, or on the Issuer's website, www.skipti.com for the twelve months during which the Share Registration Document is valid.

SHARE SECURITIES NOTE

About this document

This Share Securities Note, published on 4 March 2008, 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 following separate documents:

- this Share Securities Note, published on 4 March 2008;
- a Share Registration Document and its appendices, published on 4 March 2008; and
- a Summary, published on 4 March 2008.

Share Securities Note

1 Risk factors

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 4 March 2008 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 4 March 2008. 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's management and board of directors believe that the discussion covers the risks that are most likely to materially affect investments made in the Issuer's shares.

1.1 Risks related to investment in the Issuer's shares

1.1.1 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 and counterparty risk. The share price can fluctuate considerably due to factors 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, it must be kept in mind that 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. It is therefore suggested that those who intend to invest in stocks pay close attention to diversifying their risk and seek investment advice. 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.

1.1.2 Securities regulation

The Issuer is subject to the provisions of Icelandic regulations on securities, contained i.a. in the Icelandic Act on Securities Transactions no. 108/2007 and governmental regulations. Due to the fact that the Issuer's shares are expected to be admitted to trading on OMX ICE Main Market, the Issuer is also subject to the provisions of rules adopted by OMX ICE. The Issuer endeavours to comply with the said provisions, and any violation of these provisions may have a financial impact on the Issuer. Serious breaches may result in OMX ICE ceasing to list the Issuer's securities. 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.

Those investing in the Issuer's shares may thereby become 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.

1.1.3 Further share capital increase can dilute shareholdings

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 normally 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. It is possible that the Issuer will consider increasing its share capital further in the future in order to finance its continuing growth.

1.1.4 The market price of the Issuer's shares may be volatile

The Issuer's share price may be volatile. Consequently, the Offer Price may not be indicative of prices that will subsequently prevail in the market. If investors purchase shares in the Offering they may not be able to resell their shares at or above the Offer Price. 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 telecommunications 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.

1.1.5 Shareholder structure

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 of 28 February 2008 there were 1,037 shareholders in Skipti. To the knowledge of Skipti, there are four legal entities which have direct or indirect interests of more than 5% in Skipti's total share capital and/or voting rights as of 28 February 2008, which is the first notification threshold of major holdings under Act. No. 108/2007 on Securities Transactions. These four largest shareholders in Skipti owned 87.42% of the total issued share capital. These are Exista B.V., Kaupthing Bank hf., Lífeyrissjódur verslunarmanna and Gildi-lífeyrissjódur. These shareholders may be able to significantly influence matters submitted to the vote by the shareholders. These shareholders may also have the power to prevent a change of control and may take actions that could have a materially adverse effect on the value of the shares. 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. However, investors are advised to study the relationship between the largest shareholders and the information under the heading "Major Shareholders" in the Share Registration Document, issued on 4 March 2008.

The Issuer has entered into a number of transactions which will, following admission to trading, result in a number of shares in the Issuer being issued to third parties as consideration for acquisitions made from such parties by the Group. Further details of such transactions are set out in chapter 16 "Major shareholders" of the Share Registration Document dated 4 March 2008.

1.1.6 Prior public market for the listed shares on OMX ICE

Prior to the admission to trading there was a public trading market for the shares of the Issuer's predecessor, Landssími Íslands hf., on ICEX Alternative Market from 2001 to 2005 when Landssími Íslands hf. was privatized and de-listed. There can be no assurance that an active public market for the shares will develop on the OMX ICE and, if such a market were to develop, the Manager is under no obligation to maintain such a market. If an active trading market on the OMX ICE does not develop or is not maintained, or if an active trading market ceases to exist, the liquidity and trading price of the shares could be adversely affected and investors may have difficulty selling the shares.

2 Persons responsible

2.1 Statement from the Issuer

Skipti hf., in its capacity as Issuer, Icelandic ID-No. 460207-0880, registered office at Ármúli 25, 108 Reykjavík, Iceland, hereby declares that having taken all reasonable care to ensure that such is the case the information contained in the Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 4 March 2008

On behalf of Skipti hf.

Lýdur Gudmundsson	Brynjólfur Bjarnason
Chairman of the Board of Directors	CEO

2.2 Statement from the Offerors

Kaupthing Bank hf., Icelandic ID-No 560882-0419, registered office at Borgartún 19, 105 Reykjavík, Iceland, and Exista hf., Icelandic ID-No 610601-2350, registered office at Ármúli 3, 108 Reykjavík, Iceland, in their capacity as Offerors, hereby declare that having taken all reasonable care to ensure that such is the case, the information regarding the share offering contained in chapters 7.3 and 9 of this Share Securities Note is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 4 March 2008

On behalf of Kaupthing Bank hf.	On behalf of Exista hf.
Hreidar Már Sigurdsson	Lýdur Gudmundsson
CEO	Chairman of the Board of Directors

3 Statutory auditors

Deloitte hf., Icelandic ID-No. 521098-2449, with its registered office at Smáratorg 3, 201 Kópavogur, Iceland, the appointed auditors of Skipti hf., hereby declares that it has audited without qualification and expressed an opinion on the financial statements of the Issuer for the financial year ended 31 December 2007 and that these statements give a true and fair view of the financial position of the issuer as of 31 December 2007 and of the results of the Issuer's operations and cash flow for the year then ended.

Deloitte hf. has also audited without qualification the financial statements of Síminn hf. (Skipti's predecessor) for the financial years ended 31 December 2005 and 2006 and confirms that these statements give a true and fair view of the financial position and results of Síminn hf.'s operations and cash flows for the financial years ended 31 December 2005 and 2006 respectively.

In addition to this, Deloitte hf. has studied the merger plan of Landssími Íslands hf. Skipti ehf. and Íslenska sjónvarpsfélagið hf. dated 31 October 2005 and reviewed the resulting merger accounts as of 1 July 2005 of the aforementioned companies. Deloitte hf. has expressed its opinion that the valuation method used in the merger plan is reasonable and should give the shareholders in each company as reasonable ownership in the merged company as possible.

Deloitte hf. has also studied the demerger schedule of Síminn hf. dated 19 December 2006 and reviewed the resulting demerger accounts as of 31 October 2006. Deloitte hf. has expressed the opinion that the return rate in the demerger schedule is normal and fair.

Deloitte hf. confirms that the information contained in the Share Securities Note based on the above mentioned accounts are in accordance with Deloitte hf.'s previous audits.

Reykjavík, 4 March 2008

Deloitte hf.

State Authorised Public Accountants

Member of Deloitte Touche Tohmatsu

Smáratorg 3, 201 Kópavogur

Iceland

Hilmar A. Alfredsson

State Authorised Public Accountant

4 Manager

The Manager, Kaupthing Bank hf. – Investment Banking, Icelandic ID-No. 560882-0419, registered office at Borgartún 19, 105 Reykjavík, Iceland, has been the advisor to the Issuer in the preparation of this Share Securities Note and on the admission to trading on OMX ICE. The Manager has in consultation with the management and the board of directors of Skipti compiled this Share Securities Note, which is based on information gathered from the Company both directly and indirectly through a due diligence review. The Manager has not independently verified the information provided in the Share Securities Note of the Prospectus and is acting in reliance on the information provided by the management and board of directors of Skipti, but the Manager has reviewed the information provided and confirms that to the best of its knowledge, the information contained in this Share Securities Note of the Prospectus is in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 4 March 2008

On behalf of Kaupthing Bank hf. – Investment Banking

Thórólfur Jónsson

Managing Director

5 References and glossary of terms and abbreviations

References to the "Issuer", "Skipti", "the Group" and "the Company" in this Share Securities Note shall be construed as referring to Skipti hf., Icelandic ID-No. 460207-0880, unless otherwise clear from the context, and its subsidiaries and affiliates (as described in the Share Registration Document dated 4 March 2008), unless otherwise clear from the context. Skipti hf. is the legal Icelandic name of the Issuer.

References to "Síminn" in this Share Securities Note shall be construed as referring either to the Issuer's predecessor or to Síminn hf., depending on the context.

References to "OMX ICE" in this Share Securities Note shall be construed as referring to the OMX Nordic Exchange Iceland hf., Icelandic ID-No.681298-2829, unless otherwise clear from the context. References to the "admission to trading" and the "admission to trading on OMX ICE" in this Share Securities Note shall be construed as referring to admission to trading of shares on the OMX Nordic Exchange Iceland hf., unless otherwise clear from the context.

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

References to the "Manager" in this Share Securities Note shall be construed as referring to Kaupthing Bank hf. – Investment Banking division, Icelandic ID-No. 560882-0419, unless otherwise clear from the context.

References to the "Offerors" shall be construed as referring to Kaupthing Bank hf., Icelandic ID-No. 560882-0419 and Exista hf., Icelandic ID-No 610601-2350, and its subsidiaries, unless otherwise clear from the context.

References to the "Prospectus" in this Share Securities Note shall be construed as referring to the Prospectus which consists of the Summary dated 4 March 2008, the Share Registration Document dated 4 March 2008 and this Share Securities Note.

Abbreviations used in this Share Securities Note are listed in the following table:

CEO	Chief Executive Officer
FME	Icelandic Financial Supervisory Authority
OMXI15	An equity index comprising the 12-15 largest and most liquid Icelandic issuers listed on the OMX Nordic Exchange
ISD	Icelandic Securities Depository
ISK	Icelandic króna
The Companies Act or Act no. 2/1995	Act number 2 of 1995 on Public Limited Companies

6 Notice to investors

This Share Securities Note concerns the admission to trading of the entire issued share capital of Skipti hf. on the OMX ICE and a secondary share offering prior to the admission to trading. The offering and admission to trading will proceed pursuant to Icelandic law and regulations, including Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 which has been implemented into Icelandic law and regulations. This Share Securities Note is prepared pursuant to current legislation and applicable government regulations and OMX ICE rules. OMX ICE has reviewed and approved this Share Securities Note which is only published in English. This Share Securities Note forms a part of a Prospectus which consists of three separate documents: a Summary dated 4 March 2008, a Share Registration Document and its appendices dated 4 March 2008 and this Share Securities Note.

Through its admission to trading on OMX ICE, Skipti aims at reaching a broader group of investors and increasing its share liquidity while at the same time making the company's shares more attractive as an investment opportunity. Furthermore, admission to trading on OMX ICE will improve its future access to equity markets to finance investment opportunities that may arise and are in line with Skipti's strategy and are believed to create value for shareholders. In addition, the admission to trading is in accordance with requirements set by the government of Iceland in relation to the privatisation of Landssími Íslands hf. in 2005, where a condition was set that at least 30% of the share capital would have to be offered for sale in a public offering before the end of 2007 and the Company's shares listed on the Main List of the Icelandic Stock Exchange (now the Main Market of OMX ICE). The Ministry of Finance granted an extension until the end of the first quarter of 2008 due to Skipti's participation in the privatisation process of Telekom Slovenije d.d. The privatisation committee decided on 3 March 2008, not to propose to the government the acceptance of Skipti's offer. Furthermore, Skipti's offer lapsed at GMT 16:00 on 3 March 2008. At a shareholders' meeting on 27 February 2008 the proposal to seek admission to trading of the Issuer's shares in accordance to this requirement was approved. The application for admission to trading now on OMX ICE Main Market, is in accordance with that requirement.

The admission to trading is expected to take place on 19 March 2008 which will then be the earliest date on which the shares will be admitted to trading on OMX ICE. The date of admission to trading will be announced at least one day in advance by OMX ICE.

This Share Securities Note is prepared to provide clear and thorough information in relation to Skipti's shares. Investors are reminded that the Group operates in a competitive market with constant technological development. Investors are encouraged to acquaint themselves thoroughly with all documents forming the Prospectus (including its Appendices). Investors are advised to pay particular attention to the chapters on "Risk factors" in the Share Registration Document and the Share Securities Note. Investors are advised to consider statements made by the Issuer, the Offerors, the Statutory Auditors and the Manager regarding the Share Securities Note. Information provided in all documents forming the Prospectus is based on facts that are current at the date of publication of the Prospectus. These facts may change between the date of publication and the date the shares are admitted to trading. The Issuer will notify OMX ICE and publish a Supplement to the Prospectus if there is a significant new factor, material mistake or inaccuracy relating to the information included in the Prospectus which is capable of affecting the assessment of the securities and which arises or is noted between the date of approval of the Prospectus and the admission to trading. Investors are therefore advised to study all public information issued by or relating to Skipti, including, but not limited to, annual reports, interim accounts, press releases, newspaper reports and industry reports, and not to rely exclusively on information in this Share Securities Note or any of the documents forming a part of the Prospectus.

This Share Securities Note or any of the documents forming a part of the Prospectus should not be considered or construed as a promise by the Issuer, Offerors, Manager or other parties of future success in either operations or return on investments. Investors are reminded that investing in shares 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 Issuer's shares, bearing in mind the business environment in which the Company operates, anticipated profits, external conditions and the risk inherent in the investment itself. Prospective investors are advised to contact experts such as financial institutions to assist them in their assessment of the shares in Skipti as an investment option. Investors are advised to consider their legal status and the tax impact which an acquisition of the Issuer's shares may have and seek external and independent advice in that respect.

Attention is drawn to the interests and connections of the Manager and the Offerors to the Issuer. These interests are described in the chapter labelled "Key information" in this Share Securities Note.

This Share Securities Note, or any document forming a part of the Prospectus, is not being 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 be in conflict with any law or regulation in the respective country.

This Share Securities Note, or any document forming a part of the Prospectus, is not being sent out, directly or indirectly, by use of mail or any other means or instrumentality (including, without limitation, facsimile transmission, electronic mail, telex, telephone and the Internet) in or into the United States, Australia, Canada or Japan, and the offer cannot be accepted by any such use, means, instrumentality or facility of, or from within, the United States, Australia, Canada or Japan. Accordingly, the Prospectus, and any related offering documents are not being and may not be mailed or otherwise distributed, forwarded or sent in or into the United States.

After the admission to trading, all material documentation regarding the Issuer will be published in accordance with governing rules effective at any given time. The current Rules for Issuers of Financial Instruments Listed on the OMX Nordic Exchange Iceland hf. effective as of 1 November 2007 stipulate that all information that could significantly affect the market price of the shares be made public as quickly as possible and in a non-discriminatory manner. The publication shall be made in the European Economic Area and sent to OMX ICE for supervision purposes.

7 Key information

7.1 Working capital, capitalisation and indebtedness

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.

The following table shows Skipti's actual capitalisation as of 31 December 2007. It should be noted that indebtedness also includes indirect and contingent indebtedness. (See chapter 8.1 "Total share capital" for information relating to the maximum number of shares authorised for issuance and authorisation to purchase own shares. See also chapter 16 "Major shareholders" in the Share Registration Document on issuance of shares expected to take place following the proposed admission to trading.). Reference should also be made to the consolidated financial statements (and the notes thereto) in the Appendices to the Prospectus and "Financial overview" in the Share Registration Document. Skipti will not receive any proceeds from the sale of the offered shares described in this Share Securities Note, since the proceeds will be received by Kaupthing Bank and Exista as the Offerors.

There has been no material change in Skipti's consolidated capitalisation since 31 December 2007.

ISK million	31 December 2007
Total Current debt	14,145
- Guaranteed	0
- Secured	4,837
- Unguaranteed/ Unsecured	9,308
Total Non-Current debt (excluding current portion of long term debt)	50,740
- Guaranteed	0
- Secured	34,437
- Unguaranteed/ Unsecured	16,302
Shareholders' equity:	32,757
a. Share capital	7,365
b. Legal reserves	1,384
c. Other reserve	-366
d. Retained earnings	24,005
e. Minority interest	369
Total	97,641

Net indebtedness

ISK million	31 December 2007
A. Cash	5,269
B. Trading securities	0
C. Other cash equivalent (detail)	0
D. Liquidity (A) + (B)+(C)	5,269
E. Current Financial Receivable	6,193
F. Current Bank debt	2,051
G. Current portion of non current debt	2,785
H. Other current financial debt	9,308
I. Current Financial Debt (F)+(G)+(H)	14,145
J. Net Current Financial Indebtedness (I)-(E)-(D)	2,683
K. Non current Bank loans	34,562
L. Bonds Issued	15,851
M. Other non current loans	328
N. Non current Financial Indebtedness (K)+(L)+(M)	50,740
O. Net Financial Indebtedness (J)+(N)	53,423

7.2 Reasons for the Offering and use of proceeds

When Síminn was privatised in 2005 a condition was set by the government of Iceland that the Company's shares would be listed on the Main List of the Icelandic Stock Exchange (now OMX ICE Main Market) before the end of 2007, extended to the end of first quarter 2008 as previously outlined in chapter 6 "Notice to investors", and that 30% of the share capital would be offered for sale in a public offering. The investor consortium that acquired 98.8% of Landssími Íslands hf. in the privatisation agreed between themselves that Kaupthing Bank hf. would offer all their shares in the Offering and that Exista hf. would offer the remaining shares that are required to reach 30% of the share capital of the Company. Kaupthing Bank hf. is therefore offering its 27.8% stake in the Company and Exista hf. will offer 2.2%.

In addition to the conditions set in relation to the privatisation of Landssími Íslands hf., it is the view of Skipti that admission to trading on OMX ICE will be beneficial for the company and its future development. Skipti already has a broad shareholder base but will be able to reach new investors through the admission to trading which will therefore facilitate access to the capital markets in the future. The liquidity of Skipti´s shares will increase and the shares can better be used as currency in relation to future acquisitions. Price formation also becomes more efficient as the market value of the company will be decided through daily trading of shares. The board of directors and the management of Skipti therefore believe that admission to trading on OMX ICE is appropriate and will be beneficial for Skipti in implementing its strategy and reaching its targets in terms of further growth and expansion.

The proceeds of the Offering will go to the Offerors. As no new shares are being issued the Issuer will not receive the proceeds. The amount of proceeds received by the Offerors will depend on the book building price determined and the number of shares allocated and sold. If the Offering is not fully subscribed, the shares of Kaupthing Bank hf. will be allocated before the shares of Exista hf.

The Issuer will bear the cost of admission to trading and the Offering, including charges from OMX ICE, advisory fees to the Manager and legal and other costs related to the preparation of the Prospectus. This total cost is expected to amount to ISK 300 million.

7.3 Interests of natural and legal persons involved in the admission to trading and/or Offering

Attention is drawn to the interests of the Manager and Offerors, connected to the Issuer.

- Kaupthing Bank is both the Manager of the admission to trading and the Offering, and one of the Offerors. At the time of the publishing of this Share Securities Note Kaupthing Bank holds 27.8% of total issued shares in Skipti.
- Exista, which is one of the Offerors and is offering a 2.2% stake, is the largest shareholder in the Issuer, currently holds 43.6% of the total issued shares in Skipti.
- Exista is the largest shareholder in Kaupthing Bank and holds 23.0% of the bank's total issued shares.
- Kaupthing Bank holds 0.84% of the total issued share capital of Exista.
- Skipti is a customer of Kaupthing Bank's Investment Banking, Capital Markets and Corporate Banking divisions.
- Kaupthing Bank is among Skipti's largest creditors.

Attention is also drawn to the interests, both direct and indirect, of the following persons connected to both the Issuer and the Offerors.

- Lýdur Gudmundsson, chairman of the board of the Issuer, is also chairman of the board of Exista and indirectly owns 22.6% of the shares in Exista through Bakkabrædur Holding BV.
- Erlendur Hjaltason, a member of the board of the Issuer, is CEO of Exista and owns 0.2% of the shares in Exista.

8 Information concerning the securities to be offered/admitted to trading

8.1 Total share capital

The total number of issued shares in Skipti hf. is 7,368,421,053.

Skipti holds 3,274,664 of its own shares, which equal approximately 0.0444% of total issued shares. By law, the Issuer's own shares do not have voting rights. According to the Issuer's Articles of Association, the board of directors of the Issuer is authorised to purchase own shares in the Issuer to the extent permitted by law and in compliance with the other provisions of the Issuer's Articles of Association. The price paid for the shares shall be no lower than the nominal value of the shares and no higher than 20% above the market price of the shares at any time. The authorisation, approved on 27 February 2008 by the Annual General Meeting, is valid for 18 months from its approval.

The board of directors of the Issuer has been authorised, at the Annual General Meeting held on 27 February 2008, to increase the share capital of the Company by up to ISK 1,500,000,000 in nominal value through the issue of new shares. This authorisation will be valid for 18 months and the remainder of the previous authorisation to increase the share capital has expired. This authorisation may be exercised, inter alia, for the acquisition of, or trading in, shares in foreign or, as applicable, domestic companies. The shareholders have waived their pre-emptive rights to these shares. The board of directors is entrusted with the further details of the increase. Pursuant to a number of transactions entered into by the Issuer and its subsidiaries, further details of which are set out in chapter 16 "Major shareholders" of the Share Registration Document dated 4 March 2008, the Company has contractual obligations to deliver shares with a combined market value of ISK 1,189 million to counterparties of which ISK 840 million will be by issuing new shares and the remainder either by the issuance of new share or by delivering own shares. This will take place following the proposed admission to trading.

8.2 Issue and share characteristics

All the shares of Skipti are of the same class and carry equal rights. Shares are divided into the multiple of ISK 1 that each shareholder of the Company holds at any time. The shares have been created under Act no. 2/1995 on Public Limited Companies.

The Issuer's shares enjoy all rights provided for according to the Act No. 2/1995 on Public Limited Companies, including but not limited to: Owners of the Issuer's share capital have the right to vote at shareholders' meetings, the right to receive dividends when declared, enjoy pre-emptive rights to new shares, unless waived, and the right to a portion of the Issuer's assets upon liquidation, all 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 required by law.

Skipti's shares are all issued electronically at the Icelandic Securities Depository (ISD) and are registered there under the name of the relevant shareholder or his/her nominee. SKIPTI is the symbol for Skipti's shares in the ISD clearing and settlement system. The ISIN number of the shares is IS0000015089.

Following the intended admission to trading on the OMX ICE, the board of directors of Skipti has requested that SKIPTI becomes the symbol for the Issuer on OMX ICE and the ticker symbol for the Issuer's shares in the OMX ICE trading system.

8.3 Rights

At shareholders' meetings, each share carries one vote. No voting rights are attached to the Company's own shares. Shareholders have pre-emptive rights to increased share capital in proportion to their holdings in the Company and within the time limits specified in the decision to increase the Company share capital. To the extent that existing shareholders do not exercise their pre-emptive rights, other shareholders shall be granted increased subscription rights.

8.4 Dividend policy

The Issuer's board of directors has not set a dividend policy for Skipti.

8.5 Right to dividends

A resolution on the distribution of dividends shall be made at an annual general meeting which shall be held before the end of May each year. According to Article 7 of the Issuer's Articles of Association, dividends shall be paid to those that are registered as owners in the Register of Shares.

According to Article 7 of the Issuer's Articles of Association, the Issuer assumes no responsibility for payments or notices being lost owing to neglect to notify the Issuer of changes of ownership or address. Therefore each shareholder shall inform the Register of Shares of his/her address and in the event that shareholders neglect to provide information of such address, they shall neither have any claim towards the Issuer to receive any notice or payments which have been misplaced. However, 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. 150/2007 on the Lapse of Claim Rights.

8.6 Dividend restrictions

Skipti, the parent company and its subsidiaries are subject to legal restrictions on the amount of dividends that can be paid to shareholders according to Act no. 2/1995 on Public Limited Companies. In addition to this, Skipti is subject to covenants in loan agreements restricting dividend payments without the approval of Skipti's creditors as further described in chapter 18.5 "Dividends and dividend policy" in the Share Registration Document.

8.7 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 Register of Shares, or until they have given due notice and submitted proof of their ownership of the share.

Once a shareholder has paid in his share in full to the Issuer, he/she shall be issued an electronic certificate in the ISD and a registered title which confers on him the full rights provided for in the Articles of Association of the Issuer. The transfer of shares becomes effective upon registration with the ISD. The electronic registration of securities is governed by Act no. 131/1997 on electronic registration of securities and Regulation no. 397/2000 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 voided. A printout from the ISD on the ownership of shares in Skipti is considered a valid registration of the shares. The Issuer shall consider the share register as full proof of ownership of shares and attached rights. Dividends as well as all announcements shall at any given time be sent to the party registered in the Issuers share register as owner of the shares in question. The Issuer is in no way liable if payments or announcements do not reach their recipients because a change of address has not been notified.

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

8.8 Redemption provisions

Shareholders are not required to be submitted to redemption of their shares except as provided by law, and the consent of all shareholders is required to oblige shareholders to suffer redemption of their shares to a greater extent than provided for by law, unless the Issuer is dissolved or the share capital lawfully reduced.

8.9 Mandatory takeover bid rules

In Chapter X of the Icelandic Act on Securities Transactions no. 108/2007 it is stated that if a party has directly or indirectly become dominant in a listed company it shall make other shareholders a takeover bid. A party is considered dominant if it 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; 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 this position of dominance was reached. 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 six months prior to the offer. The offered price shall, however, at least be equal or greater than the last price the day before the offering party became dominant or at the date of the announcement.

Exista hf. currently owns 43.6% of the share capital in Skipti hf, exceeding the mandatory takeover bid threshold by 3.6 percentage points. According to the FME's published interpretation of Article 37 of the Icelandic Act on Securities Transactions no. 33/2003, whose provision is now replaced by Article 100 of the Icelandic Act on Securities Transactions no. 108/2007, the obligation to issue a takeover bid does not arise due to a single shareholder or a shareholder acting in concert with others having legal control over a company at the time of listing on a regulated market. This exemption is subject to the shareholding having been disclosed at the time of admission to trading.

8.10 Squeeze out and sell out rules

In Chapter X of the Icelandic Act on Securities Transactions no. 108/2007 it is stated that if the offering party has acquired more then 9/10 of the share capital of the company 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. 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 their remaining shares to the offering party for the same price as in the takeover bid.

8.11 Nominee accounts

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

In Article 31 of Act 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. 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 Article 31 a shareholder does not have voting rights at a shareholders' meeting unless his name is registered in the share register. 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. Customers' ownership in nominee accounts shall be included when assessing the need for disclosing such transactions.

In Article 12, Act no. 108/2007 it is stated that a financial undertaking, which is authorised to hold financial instruments owned by its customers, may 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 also 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.

8.12 Dissolution of the Company

Pursuant to the Issuer's articles of association, Article 27, proposals on the division or dissolution of the Company will be subject to the same provisions as amendments to the Articles of Association. Any decision on the dissolution of the Company must be supported by 2/3 of the cast votes and the consent of shareholders controlling at least 2/3 of the shares in the Company represented at the meeting. A shareholders' meeting, which has made a lawful decision on the division or dissolution of the Company, shall also decide on how the assets of the Company should be disbursed and debts paid. The meeting shall also decide if the Company is to be divided by a public authority or a Winding-up Committee is elected in accordance with provisions in the Public Limited Companies Act. If a shareholders' meeting has decided on dissolution of the Company, it shall without delay be announced to the Register of Limited Companies. Otherwise, dissolution or a division of the Company, or a merger to another company shall be governed by the current Act on Public Limited Companies no. 2/1995 as the provisions are set out in Chapter XIII and Chapter XIV.

8.13 Taxation

The shares of Skipti (the "Shares") are subject to taxation according to Icelandic tax law in effect at any given time.

The following is a general summary of certain tax consequences for shareholders. 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 as assets in business operations or by a partnership.

8.13.1 Tax considerations for residents of Iceland

Dividend

Skipti is obliged to withhold a tax at the rate of 10% on dividend payments, according to Art. 3, paragraph 2 and Art. 5, paragraph 4 of Act No. 94/1996 on Capital Income Tax. For individuals this withholding is the final taxation, i.e. the applicable income tax rate is the same as the withholding rate. Most taxable legal entities may for income tax purposes declare a deemed deduction of the same amount as the dividend received and consequently there is no effective taxation of dividend income of such companies. If the withholding tax is higher than the tax levied on the income of a company the difference will be refunded upon assessment of tax returns.

Sale of shares - individuals

Gains from the sale of shares is taxable in Iceland. The tax rate is 10%. In the case of individuals, losses from the sale of shares can be deducted from the profit from the sale of shares, provided the loss and profit occur within the same fiscal year. Losses from the sale of shares cannot be carried forward and offset against future capital gains from the sale of shares.

Sale of shares - taxable legal entities

For taxable limited liability companies, all gains from the sale of shares will be taxed at a rate of 18%. Gains on shares are taxable in full irrespective of how long the company has owned the shares. Other taxable entities might be treated differently, for example partnerships which are independently taxable entities are taxed at a rate of 26% instead of 18%.

Taxable legal entities may defer the payment of capital gains tax from the sale of shares for a period of up to two years starting at the end of the year when the shares are sold. The deferral can become indefinite if the relevant entity reinvests an amount corresponding to the capital gains in other shares within the two year period.

Capital losses from the sale of shares within the same tax year can be deducted from the capital gains on shares. Losses from the sale of shares can neither be carried forward nor deducted from other income than capital gains from the sale of shares.

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

8.13.2 Tax considerations for non-residents of Iceland

Dividend

Skipti is obliged to withhold 10% tax on dividend paid to individuals not resident in Iceland. Skipti is obliged to withhold 15% tax on dividend paid to foreign legal entities unless there is a tax treaty in place lowering the percentage. 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 deemed deduction in the same amount as the dividend received and, subsequently, obtain a refund. Consequently there should be no effective tax burden for such companies in Iceland.

8.13.3 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 10% 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 Skipti will pay tax 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 tax treaties Iceland has signed with other countries. Each shareholder must therefore consider what possible consequences selling shares in Skipti will have.

8.13.4 Stamp duty on shares

The issue of the Shares is subject to stamp duty in Iceland, which Skipti has paid for all issued Shares. The sale of shares is not subject to Icelandic stamp duty.

9 Terms and conditions of the share offering

9.1 Offerors and Manager

Offerors

Kaupthing Bank hf. Icelandic ID-No. 560882-0419

Address: Borgartún 19, 105 Reykjavík, Iceland, Telephone number: +354 444 6000

Exista hf. Icelandic ID-No. 610601-2350

Address: Ármúli 3, 108 Reykjavík, Iceland, Telephone number: +354 550 8600

Manager of offering and admission to trading on OMX Nordic Exchange Iceland hf.

Kaupthing Bank hf. Investment Banking Division Icelandic ID-No. 560882-0419

Address: Borgartún 19, 105 Reykjavík, Iceland Telephone number: +354 444 6000

9.2 Details of the share offering

The total proceeds from the share offering is expected to range from ISK 14,678 million to ISK 17,905 million. In total, 30% of Skipti's total issued shares are to be offered. Kaupthing Bank hf., Borgartún 19, Reykjavík will offer 2,046,376,398 and Exista hf., Ármúli 3, Reykjavík will offer 164,149,918 of the offered shares. The offering price may range from ISK 6.64 per share to ISK 8.10 per share, and the final Offer Price will be formally determined by the Offerors through the bookbuilding process described in chapter 9.5.2 below.

A total of 2,210,526,316 shares in Skipti hf., or 30% of the total share capital are to be offered. Therefore the offering will constitute of a sale of up to 2,210,526,316 shares. All shares in the share offering which are subscribed for are to be sold at the same price which may range from ISK 6.64 per share to ISK 8.10 per share. All shares offered in this share offering are existing shares owned by the Offerors. The share offering is not underwritten.

The Issuer is not aware of whether major shareholders, members of the board of directors or members of the Issuer's management intend to subscribe for shares in the Offering, or whether any person intends to subscribe for more than 5% of the Offered Shares.

9.3 Process of the share offering

The share offering will be to members of the public in Iceland and institutional investors in Iceland and to potential institutional investors in other jurisdictions where the Offered Shares may lawfully be sold. The offered shares will not be offered in jurisdictions where such offering would need additional registration.

From 10:00 GMT on 10 March 2008 to 16:00 GMT on 13 March 2008 (the "Offer Period") the Offered Shares will be offered for purchase by the Offerors through the Manager. No orders will be accepted after the Offer Period has finished. The Offerors may decide to cancel the Offering at any time prior to OMX ICE's notification of admission to trading, and at latest at 9:45 GMT on 17 March 2008, based any factors the Offerors may deem appropriate, such as extreme adverse market development. Should the Offerors decide, on the basis of the foregoing, to cancel the Offering, all subscriptions for the Offered Shares then received shall be deemed to be null and void.

9.4 Offering to institutional investors and members of the public

The Offering described in this Share Securities Note will constitute a public offering to Icelandic investors pursuant to Article 43 of the Icelandic Securities Act no. 108/2007, and an institutional offering to potential investors in Iceland and other jurisdictions where the Offered Shares may lawfully be sold.

There are two methods for subscribing for the shares in the offering to members of the public in Iceland and institutional investors in Iceland, depending on whether the submission for the order is up to and including ISK 25 million purchase value or whether it exceeds ISK 25 million purchase value. There is a minimum amount of ISK 0.1 million and no maximum amount which a potential investor in Iceland may subscribe for in the offering to members of the public in Iceland and institutional investors in Iceland, although the method for submission of bids will depend on the value of the order, as set out in Chapter 9.5 below. Potential institutional investors in jurisdictions other than Iceland where the Offered Shares might lawfully be sold can only subscribe for shares by the method where the submission for the order exceeds ISK 25 million purchase value. There is no maximum amount which a potential investor in a jurisdiction other than Iceland where the Offered Shares might lawfully be sold can subscribe for, but the order must exceed a minimum amount of ISK 25 million purchase value.

By subscribing, the investor declares that he has familiarised himself/herself with, understood and agreed the terms and other aspects of all documents forming part of the Prospectus. By subscribing the investor acknowledges that he/she has been clearly informed that the Manager is not required to assess whether participation in the public offering and the acquisition of shares in Skipti hf. is appropriate for him/her and therefore he/she does not benefit from the protection provided for in Article 16 of the Icelandic Act on Securities Transactions no. 108/2007. Furthermore, by subscribing, the investor declares that he/she has read and understood the Manager's conflicts of interest policy and is aware of all potential conflicts of interest disclosed in this Share Securities Note and other documents contained in the Prospectus in accordance with Article 8 of the Icelandic Act on Securities Transactions no. 108/2007.

9.5 Submission of bids

9.5.1 Submission of orders for amounts up to and including ISK 25 million purchase value

Orders up to and including ISK 25 million purchase value are open to all individuals holding an Icelandic ID-No. and all legal entities holding an Icelandic ID-No., if not prohibited by law. Multiple subscriptions cannot be submitted. For any single ID-No. there is only one web based subscription form. Those Kaupthing Bank hf. employees, including their families (dependent children and spouses (i.e. married partner, co-habitant and registered partner)) to which Kaupthing Bank hf.'s rules on proprietary securities trading, employee securities trading and separation of operating units etc. (pursuant to Article 6 of act 108/2007) apply, are only allowed to subscribe until 16:00 GMT on 10 March 2008.

Subscriptions for shares shall be made electronically via a special subscription form on the website of Kaupthing Bank, www.kaupthing.is for an Icelandic and English version.

Before subscribing, an investor must identify himself/herself with login details on the subscription form as follows:

(A) by username and password of Kaupthing Online Banking; or

(B) by ID-No. and a password ordered at the beginning of the internet subscription process and sent immediately to the e-mail address provided.

Electronic verification is a precondition for a valid proof of the subscription. Verification of the subscription which appears at the end of subscription can be printed out. From the time of subscription until 16:00 GMT on 30 May 2008, an electronic verification can also be obtained from the website, using the same login details as when subscribing, or from Kaupthing Online Banking.

From 15 March 2008 a notification of allocation and payment instructions can be obtained from the website, using the same login details as when subscribing, or from Kaupthing Online Banking. The website will be open for two months after its launch.

From investors subscribing for over ISK 5 million, the Manager reserves the right to demand payment security which the Manager considers adequate. Adequate payment security could be a pledge in other securities, a pledge in a bank account or a custody account. Any payment security (e.g. pledge) given will be cancelled upon payment of the relevant subscription.

Orders for amounts up to and including ISK 25 million purchase value are binding and cannot be altered or cancelled. Investors may qualify their bids by stating a maximum price per share in ISK at which they are willing to subscribe to the Offered Shares. If the Offer Price exceeds the maximum price per share stated in the application form for any part of the bid, none of the Offered Shares will be allocated to the investor for those parts of the bid where the Offer Price exceeds the maximum price per share stated in the application. Where no maximum price per share has been indicated, orders will be deemed to be made at the Offer Price. Orders shall be made for an aggregate purchase price rounded to the nearest ISK.

Kaupthing Bank's Consultants will provide information on the share offering by telephone on +354 444 7000, between 9:00 GMT and 20:00 GMT during the offer period.

9.5.2 Submission of orders for amounts exceeding ISK 25 million purchase value

Investors who wish to apply for subscription for amounts of more than ISK 25 million purchase value should indicate their interest to the Manager during the Offer Period by e-mail (iscapitalmarkets-equitysales@kaupthing.com), facsimile (+354 444 7319), phone (+354 444 6000) or other comparable means of communications. During the Offer Period, such investors can continuously change or withdraw their declarations of interest but such indications of interest become binding applications upon the conclusion of the Offer Period. This process (the "bookbuilding process") will determine the Offer Price within the price range stated above, and this Offer Price shall then apply to all shares offered. Immediately following the determination of the Offer Price each investor will be allocated Offered Shares in number and at the Offer Price within the limits of such investor's most recently submitted or adjusted declaration of interest. All orders made at a price equivalent to or higher than the Offer Price will be settled at the Offer Price following such allotments.

9.6 Allocation and reduction

If the total number of Shares ordered in the Offering exceeds the number of Offered Shares a reduction will be made as follows:

- in respect of orders by investors for amounts up to and including ISK 25 million purchase value, the reduction will be made so that the allocation to individual investors will be proportionate to their share in the aggregate amount of orders up to and including ISK 25 million purchase value; and

- in respect of orders by investors for amounts exceeding ISK 25 million purchase value, individual allocations will be made. These will be determined at the sole discretion of the Offerors. The Offerors reserve the right to reduce investors' orders and allocate fewer shares than ordered should the Offering become oversubscribed. This includes the Offerors' right to reject the subscription in full or in part, in case the investor does not subscribe for the amount of shares which he/she has been allocated during the bookbuilding process. The Offerors reserve the right to require documentation verifying the identity of each investor and the authenticity of each investor's orders and to make individual allocations if several orders are deemed to originate with the same investor.

9.7 Notification of pricing and offer results

The Offer Price will be determined by the Offerors through the bookbuilding process as described above.

The outcome of the bookbuilding process and the offer will be published through OMX ICE, prior to 9:45 GMT 14 March 2008. The announcement will include the number of Offered Shares which have been subscribed for, the Offer Price and the proceeds of the Offering, along with the aggregate number of orders received.

9.8 Notification of allocation and payment instructions

For subscriptions made through Kaupthing's website, notification of allocation and payment instructions can be obtained from 15 March 2008, from the website, using the same login details as when subscribing. In each subscriber's Icelandic online bank, an electronic payment note for the allocated number of shares can also be obtained from that date. This note will be payable via Icelandic banks and savings banks and at Icelandic online banks. Payment instructions will not be sent to subscribers, unless the subscribers so request when they submit their offer.

For subscriptions made directly to the Manager, the Manager will notify before 12:00 GMT on 14 March 2008 those subscribers to whom an allocation is made and advise them of how payment for the Offered Shares shall be made. Subscription in the share offering shall be delivered after the allocation of subscription and no later than 16:00 GMT on Friday 14 March 2008. All binding subscriptions shall be made on the "Subscription form". In the order for the investor's subscription to be valid the investor must sign the "Subscription form". An investor on behalf of legal entitities guarantees that he/she is authorised to assume on behalf of the legal entity the obligations contained in the "Subscription form". The "Subscription form" shall be delivered in an envelope marked "Skipti - Share offering" to the front desk of Kaupthing Bank hf. at Borgartún 19 in Reykjavik or by fax on +354 444 6809 or by e-mail at skipti.subscription@kaupthing.com. If sent by fax or e-mail, verification of the transmission shall be received by the Manager prior to the deadline specified above and the original then mailed to the Manager in an envelope marked according to the above.

Admission to trading will not take place until after the notification of allotment.

Payment for all Offered Shares shall not be made, and will not be accepted, prior to admission to trading or at 10:00 GMT on 19 March 2008 but no later than 16:00 GMT on 26 March 2008 according to the payment instructions.

A receipt for purchasing and payment will be sent to each subscriber when his/her payment has been received in the correct manner.

If the subscription by the Investor is approved then the Investor shall pay the committed amount to Kaupthing Bank hf. no sooner than after 10:00 GMT on 19 March 2008 and no later than 16:00 GMT on Wednesday 26 March 2008 into account number 300-26-1020, ID-No. 560882-0419. If payment is not received on time or in the correct manner the debt may be collected in accordance with applicable laws, including penalty interest and other costs of collection. Instead of resorting to collection measures, the Offerors unilaterally reserve the right to invalidate the unpaid subscription without warning or notice or allocate it to a third party.

9.9 Registration and settlement

The shares that will be sold upon completion of the share offering will only be delivered electronically into the Icelandic Securities Depository ("ISD") in connection with the completion of the share offering. Such registration of ownership rights can only take place at ISD through an account-holding bank.

Settlement is expected to take place before 17:00 GMT on 26 March 2008 subject to having received payment.

Payment for the offered shares will be required to be made in accordance with the provisions set out above. Kaupthing Bank hf., Borgartún 19, Reykjavík is the paying agent for all purchases of shares pursuant to this offering.

There are no costs and expenses payable in Iceland which will be specifically charged to the subscriber or purchaser in relation to the purchase of the offered shares. Investors in other jurisdictions need to ascertain whether any such costs or expenses will be payable in their own jurisdiction in relation thereto. Upon acquiring the shares, no fees related to the transaction will become payable by the investor to the Offerors, Manager or the Issuer.

Payment should be made no sooner than after 10:00 on 19 March 2008. Delivery against cash payment for the offered shares pursuant to the share offering will take place before 17:00 GMT on 26 March 2008. Such offered shares will be delivered in book-entry form on the closing date to the investor's accounts with ISD.

10 Admission to trading and dealing arrangements

10.1 Admission to trading

Skipti's Annual General Meeting, held on 27 February 2008, approved the proposal to seek admission to trading of the Issuer's shares. OMX ICE has agreed to the listing of Skipti's entire issued shares on OMX ICE.

The admission to trading is expected to take place on 19 March 2008 which will then be the earliest date on which the shares will be admitted to trading on OMX ICE. The date of admission to trading, which may occur later, will be announced before 10:00 GMT at least one day in advance by OMX ICE.

The board of directors of Skipti has requested that SKIPTI become the symbol for Skipti on OMX ICE and the ticker symbol for the Issuer's shares in the OMX ICE trading system.

OMX ICE has determined that one Round Lot of the Issuer's shares will amount to 10,000 shares. A Round Lot, as defined in the NOREX Member Rules, is the minimum number of shares which can generate a Latest Paid Price, as defined in the NOREX Member Rules, in conjunction with trading on OMX ICE.

Skipti aims at being selected for the OMXI15, which is an index comprising the 12-15 largest and most liquid companies admitted to trading on OMX ICE. These issuers are selected by the largest auto match turnover, provided that they are among the 20 largest companies according to the free-float adjusted market value and other criteria OMX ICE sets for the selection and currently defined in Rules for the Construction and Maintenance of the OMXI15 Equity Index published 8 October 2007. These 12-15 issuers form the basis for the OMXI15 index for a six-month period starting either from the first trading day of January or July each year.

Skipti's shares have not been previously listed on a regulated market but Landssími Íslands hf., Skipti's predecessor, was listed on the ICEX Alternative Market from 2001 to 2005. Neither Skipti nor its subsidiaries have plans to seek listing on other stock exchanges.

10.2 Market making

Kaupthing Bank hf. – Proprietary Trading and Glitnir Bank hf. - Proprietary Trading will act as market makers for Skipti on the OMX ICE. The aim of the market making agreement between Skipti and the banks is to improve liquidity of the Issuer's shares on OMX ICE in order to promote the development of a market price and to encourage effective and transparent price formation.

According to an agreement with Kaupthing Bank hf. through its own account shall submit daily bids and asks for a minimum amounting to 2 million shares on each side at a price determined by the market maker on any given occasion. The maximum spread between bids and offers may not exceed 1.2% and the difference from the last price paid may not exceed 3.0%. The market maker is obliged to provide liquidity for up to ISK 150 million per day. The market making process will begin on 27 March 2008.

According to an agreement with Glitnir Bank hf. through its own account shall submit daily bids and asks for a minimum amounting to 2 million shares on each side at a price determined by the market maker on any given occasion. The maximum spread between bids and offers may not exceed 1.2% and the difference from the last price paid may not exceed 3.0%. The market maker is obliged to provide liquidity for up to ISK 150 million per day. The market making process will begin on 27 March 2008.

SHARE REGISTRATION DOCUMENT WITH APPENDICES

About this document

This Share Registration Document, published on 4 March 2008, 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 following separate documents:

- this Share Registration Documents, published on 4 March 2008;
- a Share Securities Note, published on 4 March 2008; and
- a Summary, published on 4 March 2008.

1 RISK FACTORS

Investing in shares is subject to numerous risks. Prior to making any investment decision regarding shares in Skipti, investors should consider all the information in this Share Registration Document and in the Share Securities Note of the 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 dated 4 March 2008, that could materially affect Skipti and any investment made in its shares. 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 decline and investors might lose a part of their investment or even all of it. Additional risks and uncertainties that do not currently exist, that are not presently considered material, or of which the Company is unaware may also impair its business and operation. These risks and uncertainties could have a materially adverse impact on the business, income, profits, assets, liquidity and/or the share price of Skipti. The Issuer's management and board of directors believe that the discussion covers the risks that are most likely to materially affect the Issuer but they are not listed in order of importance.

1.1 Technical risk

As Skipti's main operations are in telecommunications and IT (Information Technology), the Company is very dependant on the use of technology in its operations. It both offers its customers services and solutions that are based on technology and uses technology in its own operations, such as billing systems that are vital for its operational efficiency. The technology used is subject to rapid and significant changes. New products and services are frequently introduced and industry standards are constantly evolving. These changes can have a number of effects on Skipti's operations and profitability. New technology can be a source of increased revenues through new product offerings and value-added services. New technology can also lead to increased competition, tariff reductions and increase in capital expenditures as it may be necessary to upgrade or replace technology to be able to compete effectively in the market. The technologies chosen by the Company may also not prove to be the most commercially successful in the market

1.2 Market risk

1.2.1 Economic conditions

Although the use of telephones and other services offered by Skipti is a necessity in its customers' daily lives, the level of use of some of the Company's products and services is linked to general economic conditions and the Company might therefore experience cutbacks in usage during economic downturns which would adversely affect the profitability of the Company. The majority of Skipti's revenue is generated in Iceland, thus the Company is especially dependent on economic and other market conditions in Iceland.

1.2.2 Competition

Skipti faces constant competition in its main markets which could lead to an erosion of prices, increased marketing expenses, larger than expected capital expenditures and a loss of market share for Skipti, which may thereby negatively affect Skipti's future profitability. The main markets in which Skipti operates are fairly accessible for new entrants which make new and increased competition likely in the near future. Skipti is aware of the fact that continued rapid changes in technology could increase competition or require Skipti to make substantial investments to remain competitive. Skipti considers new technologies and new entrants as an opportunity to do better in its operations. The launch of the 3G network is a prime example of how Skipti has responded to new technology and new competition.

In the mobile market, new GSM licences have recently been auctioned and a new competitor has built a 3G network. It can also be expected that MVNO's (Mobile Virtual Network Operators) will commence operations as network operators such as Skipti are required to grant access to their networks to MVNO's.

In the fixed line market, use of VoIP (Voice over Internet Protocol), where people can make phone calls over the Internet, can be expected to increase, and the fiber optic cable network that is owned by OR (Reykjavík Energy) will compete with Skipti's ADSL and broadband services. This changed market landscape will lead to a continuation of current trends where tariffs and minutes usage are decreasing. The strong domestic economic growth in recent years has increased foreign investment in Iceland and an increasing number of companies have started operations in Iceland. Foreign companies have shown interest in the Icelandic mobile market and it is expected that the increased competition will also come from foreign operators. For example, two Swiss companies, Amitelo and BebbiCell, have been awarded licences to build and operate mobile networks in Iceland.

The domestic IT operations of Skipti do not represent a significant portion of the total operations. The competition mainly comes from companies such as Skýrr, TM Software, EJS and Nýherji. Skipti does have significant foreign operations in the IT area through Sirius IT. Sirius has operations in Denmark, Sweden and Norway.

1.2.3 Interest rate and funding risk

Interest rate and funding risk arises from the Company's exposure, due to its financial obligations, to adverse movements in interest rates and conditions in financial markets. Until 2012 Skipti does not have to turn to the financial markets for any refinancing of its debt as cash flow from operations is projected to cover its repayments schedule, and its funding requirements are therefore limited to acquisition activities. Post 2012 the Company needs to refinance part of its debt. At that time the market conditions might be unfavourable and interest rates might have increased substantially which would adversely affect the cash flow of the Company. As a result the Company is therefore subject to liquidity risk.

Skipti uses hedging instruments to control interest rate risk by obtaining the desirable ratio between fixed and floating rates.

1.2.4 Currency risk

Skipti's reporting currency is the Icelandic króna (ISK). Although Skipti's international operations have been expanding with operations in Scandinavia and the UK, the largest currency in terms of both revenues and costs is still ISK. Skipti has a substantial part of its bank debt in foreign currencies and fluctuations in exchange rates may therefore adversely affect Skipti's financial costs and net income.

Skipti also incurs currency risk through sale of services and procurement of materials and supplies.

Skipti uses hedging instruments to reduce risk related to payables and repayments of borrowings. The contracts are generally short term and have a duration of less than 12 months, and, whilst it tries to reduce the risks caused by fluctuations in exchange rates, Skipti cannot completely remove such risks.

1.2.5 Inflation risk

Skipti has issued consumer price indexed fixed income bonds which are listed on OMX ICE and amount to ISK 14,000 million at nominal value. High inflation will significantly increase the payable amount of the bonds for Skipti. High inflation will also in general have a negative effect on Skipti's operations since expenses such as payroll expenses will increase and there is no guarantee that increased expenses can be met with price increases for Skipti's services

1.3 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.

1.3.1 Managing growth

The Icelandic telecom market is characterised by high penetration and high ARPU (Average Revenue Per User). As Skipti furthermore has a large market share, growth from its current operations is therefore dependent on the Company being able to implement and offer new value added products and services that increase ARPU. A failure to do so would lead to slower growth in the future from existing operations.

External growth is anticipated at Skipti and its subsidiaries. Inside Skipti there is technical know-how and market and operational expertise that the Company will use to grow through acquisitions and via further penetration of markets in which it currently operates. However the value of those potential future acquisitions will depend on Skipti's ability to identify suitable candidates for acquisition. This growth will also entail risks as is common in acquisitions and can involve the price paid, the competency of new management and integration and alignment of new subsidiaries into the Company. New acquisitions can also cause disruptions in the current business of the Company as acquisitions can take up time and focus from the management. Future growth may also entail risks related to new markets in which Skipti has limited or no direct prior experience. Skipti has and will continue to co-operate with the management of the acquired companies to get instant knowledge of the new markets that Skipti is entering.

Failure to identify or complete acquisitions or investments necessary to pursue Skipti's plans for international expansion, in particular in the telecommunications sector and IT sector may result in less growth and impair Skipti's competitive position.

1.3.2 Key employees

It is important for Skipti to be able to attract and retain capable employees. In IT services for example, the quality of the work performed is dependant on the quality of the employees performing the services. Skipti places a heavy 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.

1.3.3 Legal risk

Skipti and its subsidiaries are to a large extent operating in regulated markets and changes in the regulatory environment could adversely affect the Company's profitability. Skipti's operations are subject to extensive regulatory requirements. The main regulatory body is the PTA (The Post and Telecom Administration in Iceland) which supervises communications in Iceland and whose role is furthermore to encourage competition in telecom services and prevent illegal commercial practices. The PTA can rule on wholesale tariffs and require Skipti to offer its competitors access to its networks.

Skipti has exposure to external operational conditions such as the economic and regulatory framework which its operations are based on. Iceland is a member of the European Economic Area (EEA) and the EEA agreement provides conditions for Skipti which are similar to those in the European Union.

The telecommunications market is strictly regulated by laws and rules set by public authorities. Skipti's operations are based on national legislation on telecommunication companies which is based on the EEA agreement. Any changes in national legislation or rules, the EEA agreement or indirectly, the EU legislation can therefore affect the company. Skipti engages in telecom services on the basis of general authorisation to provide such services, as well as specific licences for use of frequencies. Amendments to these conditions could affect the Company.

New legislation and interpretations of existing law could affect Skipti. The PTA has a duty to define product and service markets as well as geographical markets in the telecommunications sector. Such analysis is a prerequisite for the PTA to be able to impose obligations on the telecommunication operators, cf. the Electronic Communications Act. According to the Act the PTA can only impose obligations on companies deemed to have significant market power. The market analysis conclusions can therefore affect Skipti. As Skipti is considered to have significant market power in both fixed and mobile operations, it can expect that the PTA can set requirements that reduce flexibility in setting tariffs or provide advantages to its competitors.

The main foreign investments made by Skipti to date are in the UK and Scandinavia. In relation to the main foreign investments if Skipti, the internal market legislation of the European Union as transposed into national law is the applicable law. As Skipti's international subsidiaries and associates do not currently have significant market power in their markets, the EU legislation is in most cases beneficial in the daily operations of these companies. Should the applicable laws change, or should any of these companies attain significant market power in their markets, the regulatory environment may no longer be so favourable to the Group's operations in these jurisdictions.

Given the activities of Skipti in acquiring new businesses and merging these with its existing businesses, the Competition Authority may from time to time impose conditions on Skipti's proposed acquisitions or operations. The Competition Authority has previously imposed such conditions on the merger into the group of Síminn hf. and Íslenska sjónvarpsfélagid hf. Compliance with any conditions imposed by the Competition Authority may affect Skipti's intended use of its businesses, and there is also the risk that the Competition Authority may bring proceedings where it deems that Skipti has not fully complied with any conditions it has imposed or provisions of the competition laws, in particular in relation to potential abuse of dominant position.

1.3.4 Licenses and authorisations

Skipti currently has all the licences and authorisations necessary for operating its businesses. However, the company may not always be able to maintain such licenses, and the loss of any license could materially affect its business. Additionally, the growth of the Company's business may require further licenses and authorisations, and there is no guarantee that such licenses and authorisations would be granted. However, as licenses for frequencies are regarded as indirect property rights, the removal of such licenses has to be proportional and is also subject to stringent procedural rules.

1.3.5 Universal service obligations

Síminn, Já Upplýsingaveitur and Míla, Skipti's subsidiaries, are required according to chapter VI of the Electronic Communications Act no. 81/2003, to promote specific telephony services to all users in Iceland, regardless of their geographical location. The services of these three companies are required to provide are basic voice services, standard fax and low-speed data services and reasonable access to public pay phones and directory enquiries as well as adapted services for disabled users. The prices charged for such services must be based on average geographical prices throughout Iceland.

The obligation to provide universal services can result in unprofitable operations. According to article 21 of the Electronic Communications Act no. 81/2003, the three companies can apply for a financial contribution from an equalisation fund in the custody of the PTA. The Appellate Committee has recently awarded Síminn approximately ISK 164 million from the Universal Services Equality Fund, increasing substantially the ISK 18 million which the PTA had previously awarded. There is however no guarantee that any further financial contribution will be granted in the future.

1.3.6 Litigation and arbitration proceedings

Given the wide-ranging activities of the Company, there is always the risk that litigation, arbitration or governmental proceedings could adversely affect the Issuer's financial position and/or reputation. In chapter 18 "Financial overview" material outstanding litigation and arbitration proceedings are outlined.

1.3.7 Right to lay network

Authorised Electronic Communications Undertakings have the right to lay lines for electronic communications facilities on land according to the Icelandic Electronic Communications Act. As the value of land is increasing in Iceland there is a possibility that rental cost will increase as a consequence. The permission of landowners to use their land as sites for base stations and masts can also become harder to obtain due to environmental issues.

1.3.8 Health risks

Concerns have been raised that electromagnetic radiation emitted from mobile phone handsets may harm health. Other research claims that the use of mobile phones does not have any adverse human health effects. These risks, actual or perceived, may uproot mobile telephone customers from using their mobile phones and make it difficult to find attractive sites for base stations.

1.3.9 Reputational risk

Reputational risk is the risk that Skipti will suffer a loss of revenue due to negative publicity regarding its business practices. This negative publicity may result from mistakes in conducting its business, from wrong decisions, or from Skipti or some related party not following general laws and regulations. If Skipti or its subsidiaries' reputation or credibility is negatively affected, owing to private or public discussion, Skipti's ability to grow may be impaired and future earnings may be adversely impacted.

1.3.10 Networks

Network failures may result in reduced capacity for customers and hence result in less traffic, lost customers, reduced revenues, damages to networks and equipment. This might happen due to physical damage to the network, software defects, hardware failures, breach of security in the form of hacking or computer viruses as well as to other interruptions that are out of Skipti's control. Skipti accepts no liability according to Article 40 of the Electronic Communications Act no. 81, 26 March 2003, for damages which can be traced to connection failure, disruption of electronic communications or other disturbances which may occur in the operations of the electronic communications network, whether this can be attributed to a breakdown of the line, a failure in the connecting station or other causes. Limits on liability are, however, limited to damages not resulting from major errors on the part of the undertaking's staff.

1.3.11 Suppliers

Skipti relies on its suppliers to continue to sell or lease their products and services to Skipti at commercially reasonable prices. Delays in receiving this equipment could lead to Skipti's inability to service its customers. Providing new sources of supply may be difficult and it may adversely affect its business.

Companies such as Ericsson, Alcatel-Lucent, Cisco and Thomson are among Skipti's main vendors. Should they lose their position as leaders in network equipment or not manufacture the equipment that Skipti needs for its operations any longer, Skipti might be required to change vendors and might incur additional expenses while that transition takes place.

1.3.12 Tax

Skipti could be affected by changes in tax legislation in any of the countries where it has operations. Skipti 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 Skipti's tax filings, as for any other company, may be initiated at a later stage in accordance with relevant regulations and affect Skipti's prospects. Skipti and the tax authorities may potentially have different opinions on how various financial arrangements within the Company should be treated from a tax perspective. Skipti 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.

1.3.13 Trademarks and other intellectual property

Skipti owns a considerable number of trademarks and other intellectual property which it relies on in its operations. Skipti has tried to secure legal rights to such trademarks and intellectual property. It could affect Skipti's business should Skipti, for some reason, be unable to continue to rely on important intellectual property rights.

1.3.14 Covenants

Skipti is contractually bound to honour various financing agreements. Should Skipti become unable to or for some reason cease to fulfil the respective covenants, the lenders and financiers may become entitled to rescind the agreements, which might have adverse financial consequences for Skipti.

1.3.15 International Financial Reporting Standards

Skipti's annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). Skipti has prepared the statements according to IFRS since 2005. IFRS is under constant review and amendments to the standards might have an effect on the reported income of Skipti. An example would be guidelines related to goodwill.

1.3.16 Insurance

Skipti has all mandatory insurance policies in force such as fire insurance and insurance covering its employees. Skipti has profit and loss insurance which will cover losses due to a halt in operations for up to 12 months.

Skipti has director's and officer's insurance policies in force. Skipti is the insurer and pays the premium. The D&O insurance applies to Skipti and all subsidiaries in which it holds 50% or more. Furthermore it applies to Skipti's board members with D&O insurance, who have been appointed on behalf of Skipti to other boards although Skipti owns less than 50% of the share capital.

2. PERSONS RESPONSIBLE

Skipti hf., Icelandic ID-No. 460207-0880, registered office at Ármúli 25, 108 Reykjavík, Iceland, in its capacity as the Issuer, hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in the 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, 4 March 2008

On behalf of the Issuer

Lýdur Gudmundsson	Brynjólfur Bjarnason
Chairman of the Board	CEO

3. STATUTORY AUDITORS

Deloitte hf., Icelandic ID-No. 521098-2449, with its registered office at Smáratorg 3, 201 Kópavogur, Iceland, the appointed auditors of Skipti hf., hereby declares that it has audited without qualification and expressed an opinion on the financial statements of the Issuer for the financial year ended 31 December 2007 and that these statements give a true and fair view of the financial position of the issuer as of 31 December 2007 and of the results of the Issuer's operations and cash flow for the year then ended.

Deloitte hf. has also audited without qualification the financial statements of Síminn hf. (Skipti's predecessor) for the financial years ended 31 December 2005 and 2006 and confirms that these statements give a true and fair view of the financial position and results of Síminn hf.'s operations and cash flows for the financial years ended 31 December 2005 and 2006 respectively.

In addition to this, Deloitte hf. has studied the merger plan of Landssími Íslands hf. Skipti ehf. and Íslenska sjónvarpsfélagid hf. dated 31 October 2005 and reviewed the resulting merger accounts as of 1 July 2005 of the aforementioned companies. Deloitte hf. has expressed its opinion that the valuation method used in the merger plan is reasonable and should give the shareholders in each company as reasonable ownership in the merged company as possible.

Deloitte hf. has also studied the demerger schedule of Síminn hf. dated 19 December 2006 and reviewed the resulting demerger accounts as of 31 October 2006. Deloitte hf. has expressed the opinion that the return rate in the demerger schedule is normal and fair.

Deloitte hf. has examined the profit forecast for 2008 set out in the section "Profit forecast for 2008" of the Share Registration Document for Skipti dated 4 March 2008. The profit forecast is prepared on the basis of the material assumptions in the section "Methodology and assumptions" and the accounting policies of Skipti hf. described in the notes to Skipti's Consolidated Financial Statements 2007. The accounting policies applied are in accordance with the recognition and measurement principles of IFRS as adopted by EU. Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the profit forecast for 2008. Further, in our opinion the profit forecast for 2008 has been properly prepared on the basis of the assumptions consistent with the accounting policies of Skipti hf.

Deloitte hf. confirms that the information contained in the Share Registration Document based on the above mentioned documents are in accordance with Deloitte hf.'s previous audits.

Reykjavík, 4 March 2008

Deloitte hf.
State Authorised Public Accountants
Member of Deloitte Touche Tomatsu
Smáratorg 3, 201 Kópavogur
Iceland

Hilmar A. Alfredsson
State Authorised Public Accountant

4. MANAGER

The Manager, Kaupthing Bank hf. – Investment Banking, Icelandic ID-No. 560882-0419, registered office at Borgartún 19, 105 Reykjavík, Iceland, has been the advisor to the Issuer in the preparation of this Share Registration Document and on the admission to trading on OMX ICE. The Manager has in consultation with the management and the board of directors of Skipti compiled this Share Registration Document, which is based on information gathered from the Company both directly and indirectly through a due diligence review. The Manager has not independently verified the information provided in the Share Registration Document of the Prospectus and is acting in reliance on the information provided by the management and board of directors of Skipti, but the Manager has reviewed the information provided and confirms that to the best of its knowledge, the information contained in this Share Registration Document of the Prospectus is in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 4 March 2008

On behalf of Kaupthing Bank hf. – Investment Banking

Thórólfur Jónsson

Managing Director

5. REFERENCES AND GLOSSARY OF TERMS AND ABBREVIATIONS

References to the ”Issuer”, ”Skipti”, ”the Group” and ”the Company” in this Share Registration Document shall be construed as referring to Skipti hf., Icelandic ID-No. 460207-0880, unless otherwise clear from the context, and its subsidiaries and affiliates, unless otherwise clear from the context. Skipti hf. is the legal Icelandic name of the Issuer.

References to ”Síminn” in this Share Registration Document shall be construed as referring either to the Issuer’s predecessor or to Síminn hf., depending on the context.

References to ”OMX ICE” in this Share Registration Document shall be construed as referring to the OMX Nordic Exchange Iceland hf., Icelandic ID-No. 681298-2829, unless otherwise clear from the context. References to the ”admission to trading” and the ”admission to trading on OMX ICE” in this Share Registration Document shall be construed as referring to the admission to trading of shares on the OMX Nordic Exchange Iceland hf., unless otherwise clear from the context.

References to ”ISD” in this Share Registration Document shall be construed as referring to the Icelandic Securities Depository, i.e. to Verdbréfaskráning Íslands hf., Icelandic ID-No. 500797-3209, whose address is Laugavegur 182, Reykjavík, unless otherwise clear from the context.

References to the ”Manager” in this Share Registration Document shall be construed as referring to Kaupthing Bank hf. – Investment Banking division, Icelandic ID-No. 560882-0419, unless otherwise clear from the context. References to ”Kaupthing Bank” shall be construed as referring to Kaupthing Bank hf., Icelandic ID-No. 560882-0419, unless otherwise clear from the context.

References to the ”Offerors” in this Share Registration Document shall be construed as referring to Kaupthing Bank hf., Icelandic ID-No. 560882-0419, and Exista hf., Icelandic ID-No. 610601-2350, and its subsidiaries, unless otherwise clear from the context.

References to the “Prospectus” in this Share Registration Document shall be construed as referring to the Prospectus which consists of the Summary dated 4 March 2008, the Share Securities Note dated 4 March 2008 and this Share Registration Document.

The abbreviations used in this Share Registration Document are listed in the following table.

3G	Third Generation Mobile Network
4G	Fourth Generation Mobile Network
ADSL	Asymmetric Digital Subscriber Line
ARPU	Average Revenue Per User
ATM	Asynchronous Transfer Mode
CEO	Chief Executive Officer
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
FME	Icelandic Financial Supervisory Authority
FTTC/FTTB	Fiber To The Curb/Fiber to the Building
Gbps	Gigabit per second
GDP	Gross Domestic Product
GSM	Groupe Spécial Mobile/The Global System for Mobile Communication
HSDPA	High Speed Downlink Packet Access
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
IP	Internet Protocol
IPTV	Internet Protocol Television
ISD	Icelandic Securities Depository
ISDN	Integrated Service Digital Network
ISK	Icelandic króna
IT	Information Technology
MPLS	Multi Protocol Label Switching
MVNO	Mobile Virtual Network Operator
nPVR	network Personal Video Recorder
PIM	Personal Information Manager
PTA	The Post and Telecom Administration Iceland
QoS	Quality of Service

SHDSL	Symmetric High-Bitrate Digital Subscriber Loop
SIM	Subscriber Identity Module
SME	Small to Medium Enterprise
SMS	Short Message Service
TCO	Total Cost of Ownership
The Companies Act or Act No. 2/1995	Act number 2 from 1995 on Public Limited Companies
TIME	Telecommunications, Information Technology, Media and Electronics
VoD	Video on Demand
VoIP	Voice over Internet Protocol
VSAT	Very Small Aperture Terminal
WiMax	Worldwide Interoperability for Microwave Access

6. DOCUMENTS ON DISPLAY

The following documents are on display, and are to be found in the Appendices to the Prospectus:

- The Issuer's Articles of Association
- Skipti's audited consolidated annual financial statements for the financial year-ended 31 December 2007
- Síminn's audited consolidated annual financial statements for the financial year-ended 31 December 2006
- Síminn's audited consolidated annual financial statements for the financial year-ended 31 December 2005
- Merger plan in respect of the merger of Skipti ehf., Íslenska Sjónvarpsfélagid hf. and Landssími Íslands hf.
- Demerger schedule of Síminn hf. and Skipti hf.
- Demerger schedule of Síminn hf., Fjarskiptanetid ehf. and Jörfi ehf.

Copies of documents on display are to be found in Appendices to the Prospectus which consists of three documents: Summary, Share Registration Document and Share Securities Note. Copies of documents on display can also be obtained from the registered office of the Issuer, or on the Issuer's website, www.skipti.com for the twelve months during which the Share Registration Document is valid.

The Issuer will, in the event of any significant new factor, material omission or inaccuracy relating to information included in this Share Registration Document which can affect the assessment of the offered shares, prepare a supplement to this Share Registration Document in accordance with Article 46 of the Securities Transaction Act, No. 108/2007, or publish a new Share Registration Document for use in connection with any subsequent issue of shares. 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.

7. CONFIRMATION RELATING TO THIRD PARTY INFORMATION

Information obtained from The Post and Telecom Administration, Statistics Iceland, University of Iceland and Capacent Gallup 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 prospectus, where applicable.

8. NOTICE TO INVESTORS

This Share Registration Document concerns the admission to trading of the entire issued share capital of Skipti hf. on OMX ICE and a secondary share offering prior to the admission to trading. The offering and admission to trading will proceed in accordance with Icelandic law and regulations including Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 which has been implemented into Icelandic law and regulations. This Share Registration Document is prepared pursuant to current legislation and applicable government regulations and OMX ICE rules. OMX ICE has reviewed and approved this Share Registration Document, on behalf of The Financial Supervisory Authority in Iceland (FME), which is only published in English. This Share Registration Document forms a part of a Prospectus which consists of three separate documents; a Summary, a Share Registration Document and its appendices and a Share Securities Note all published on 4 March 2008.

Through its admission to trading on OMX ICE, Skipti aims at reaching a broader group of investors and increasing its share liquidity while at the same time making the company's shares more attractive as an investment opportunity. Furthermore, admission to trading on OMX ICE will improve its future access to equity markets to finance investment opportunities that may arise and are in line with Skipti's strategy and are believed to create value for shareholders. In addition, the admission to trading is in accordance with requirements set by the government of Iceland in relation to the privatization of Landssími Íslands hf. in 2005, where a condition was set that at least 30% of the share capital would have to be offered for sale in a public offering before the end of 2007 and the Company's shares listed on the Main List of the Icelandic Stock Exchange (now the Main Market of OMX ICE). The Ministry of Finance granted an extension until the end of the first quarter of 2008 due to Skipti's participation in the privatization process of Telekom Slovenije d.d. The privatisation committee decided on 3 March 2008, not to propose to the government the acceptance of Skipti's offer. Furthermore, Skipti's offer lapsed at GMT 16:00 on 3 March 2008.. At a shareholders' meeting on 27 February 2008 the proposal to seek admission to trading of the Issuer's shares in accordance to this requirement was approved. The application for admission to trading now on OMX ICE Main Market, is in accordance with that requirement.

The admission to trading is expected to take place on 19 March 2008 which will then be the earliest date on which the shares will be admitted to trading on OMX ICE. The date of admission to trading will be announced at least one day in advance by OMX ICE.

This Share Registration Document is prepared in order to provide clear and thorough information on Skipti and its subsidiary undertakings. Investors are encouraged to familiarise themselves thoroughly with all documents forming a part of the Prospectus. Investors are reminded that the Group operates in a competitive market with constant technological development. Investors are advised to pay particular attention to the chapters on Risk Factors in the Share Registration Document and the Share Securities Note. Investors are advised to consider statements made by the Issuer, the Manager and the Auditors regarding the Share Registration Document. Information provided in the Prospectus is based on facts that are current at the date of publication of the Prospectus. These facts may change between the date of publication and the date the shares are listed. The Issuer will notify OMX ICE and publish a Supplement to the Prospectus if there is a significant new factor, material mistake or inaccuracy relating to the information included in the Prospectus which is capable of affecting the assessment of the securities and which arises or is noted between the date of approval of the Prospectus and the admission to trading. Investors are therefore advised to study all public information issued by or relating to Skipti, including, but not limited to, annual reports, interim accounts, press releases, newspaper reports and industry reports, and not to rely exclusively on information in this Share Registration Document or any of the documents forming a part of the Prospectus.

This Share Registration Document or any of the documents forming a part of 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 shares 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 Issuer's shares, bearing in mind the business environment in which Skipti 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 the shares in Skipti as an investment option. Investors are advised to consider their legal status and any tax implications which an acquisition of the Issuer's shares may have, and seek external and independent advice in that respect.

Attention is drawn to the interests of the Manager and the Offerors (in the share offering described in the Share Securities Note issued simultaneously with this Share Registration Document), Kaupthing Bank hf. and Exista hf., relating to the Issuer:

- Kaupthing Bank is the second largest shareholder in Skipti and holds 27.8% of the company's total issued shares, which are to be offered in this Offering.
- Exista is the largest shareholder in Skipti and holds 43.6% of the company's total issued shares. 2.2% of Skipti's total issued shares are to be offered by Exista in this Offering.
- Skipti is a customer of Kaupthing Bank's Investment Banking, Capital Markets and Corporate Banking divisions.
- Kaupthing Bank is among Skipti's larger creditors.
- Exista is the largest shareholder in Kaupthing Bank, with a 23.0% stake.
- Kaupthing Bank holds 0.84% of the total issued share capital of Exista.

Attention is also drawn to the interests, both direct and indirect, of the following persons connected to both the Issuer and the Offerors.

- Lýdur Gudmundsson, chairman of the board of the Issuer, is also chairman of the board of Exista and indirectly owns 22.6% of the shares in Exista through Bakkabrædur Holding BV.
- Erlendur Hjaltason, a member of the board of the Issuer, is CEO of Exista and owns 0.2% of the shares in Exista.

This Share Registration Document and 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 be in conflict with any law or regulation in the respective country.

This Share Registration Document shall not be sent out, directly or indirectly, by use of mail or any other means or instrumentality (including, without limitation, facsimile transmission, electronic mail, telex, telephone and the Internet) in or into the United States, Australia, Canada or Japan, and the offer cannot be accepted by any such use, means, instrumentality or facility of, or from within, the United States, Australia, Canada or Japan. Accordingly, this Prospectus, and any related offering documents are not being and may not be mailed or otherwise distributed, forwarded or sent in or into the United States.

After the admission to trading, all material documentation regarding the Issuer will be published in accordance with governing rules effective at any given time. The current Rules for Issuers of Financial Instruments Listed on the OMX Nordic Exchange Iceland hf. effective as of 1 November 2007 stipulate that all information that could significantly impact on the market price of the shares be made public as quickly as possible and in a non-discriminatory manner. The publication shall be made in the European Economic Area and sent to OMX ICE for supervision purposes.

9. SELECTED FINANCIAL INFORMATION

This section gives an overview of Skipti's financials and historical performance. The tables below highlight the key items from Skipti's and its predecessor's profit and loss and balance sheet statements for the full financial years ending on 31 December 2005, 2006, and 2007. Síminn's audited consolidated annual financial statements for each of the financial years ended 31 December 2005 and 2006 and Skipti's audited consolidated annual financial statements for the financial year ended 31 December 2007 are to be found in Appendices to the Prospectus. Documents on display can also be obtained from the registered office of the Issuer and electronically from the Company's website (www.skipti.com) for the twelve months during which the Share Registration Document is valid.

9.1 Income Statement

Net sales for 2007 amounted to ISK 32,719 million and increased by 30.7% compared to 2006. Aside from organic growth in all of Síminn's services, except fixed line telephony, the operations of Aerofone, BusinessPhone, Ventelo and Sensa were acquired by Skipti in 2007 and Sirius IT acquired in November 2006.

Operating expenses for 2007 increased by 29.6%, partly due to costs related to acquisitions in 2007. The 2007 EBITDA was ISK 9,493 million, representing a margin of 28.5%, compared with a 33.4% EBITDA margin in 2006. The decline in EBITDA margin is mainly explained by increased activity of Skipti in the IT sector.

Increased debt and currency fluctuations have however led to more extreme movements in financial income and expenses as can be seen in 2006 and in 2007.

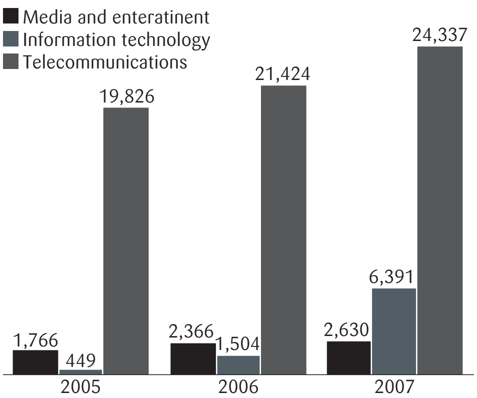
Profit for the year 2007 was ISK 3,082 million compared to a loss of ISK 3,560 million in 2006 and a profit of ISK 4,032 million in 2005. The loss in 2006 is mainly due to exchange losses of ISK 5,773 million in 2006. After tax profit in 2007 from continuing operations amounted to ISK 1,686 million and the sale of Fasteignafélagid Jörfi, generated a one-off profit after tax of ISK 1,396 million.

Consolidated Income Statement 2005 - 2007

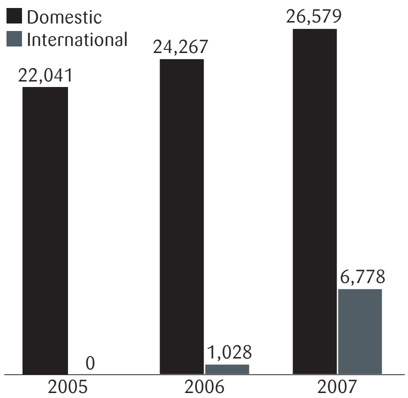
ISK thousands	2007 1.1 - 31.12	2006 1.1 - 31.12	2005 1.1 - 31.12
Net sales	32,719,079	25,030,127	21,641,489
Other operating income	638,690	265,013	399,943
Cost of sales	(18,972,885)	(13,671,369)	(11,923,315)
Operating expenses	(9,093,817)	(7,018,256)	(6,511,884)
EBITDA	9,493,092	8,442,719	7,453,642
Depreciation and Amortisation	(4,202,025)	(3,837,204)	(3,847,409)
EBIT	5,291,067	4,605,515	3,606,233
Financial income (expenses)	(3,274,070)	(8,936,267)	692,214
Share of profit (loss) in associates	(26,003)	(6,435)	(30,736)
Profit (loss) before tax	1,990,994	(4,337,187)	4,267,711
Income tax	(304,933)	777,461	(235,622)
Discontinued operations	1,395,755	0	0
Profit (loss) for the period	3,081,816	(3,559,726)	4,032,089

The charts below provide an overview of the development in total revenues split by major activities and geographics.

Total revenues – split by activities



Total revenues – split by geographics



All amounts in ISK million

The domestic operations represent 79.7% of the combined net sales and other operating income (together total revenues) generated by Skipti in 2007 while 20.3% of the revenues are generated by international operations mainly in the UK, Denmark, Sweden and Norway. In 2006 4.1% of the total revenues were generated from international operations and none in 2005. Telecommunications represents 73% of the total revenues generated by Skipti in 2007, as opposed to 90% in 2005. Information Technology in 2007 accounted for 19% of total revenues, as opposed to 2% in 2005. Media and entertainment accounted for 8% of total revenues both in 2005 and 2007.

9.2 Balance sheet

Síminn's balance sheet changed substantially in 2005, when Síminn was privatised and later merged with the holding company that purchased 98.8% of Síminn in the privatisation process. Equity and liabilities increased considerably, and on the asset side goodwill was recognised due to the business combination of Skipti ehf. Íslenska sjónvarpsfélagid ehf. and Síminn hf. Assets, including goodwill, have continued to grow with Skipti's acquisitions of telecommunications and IT services companies in the period of 2005-2007.

Consolidated Balance Sheet 2005 - 2007

ISK thousands	2007 31.12	2006 31.12	2005 31.12
Non-current assets	85,045,587	81,099,461	78,016,978
Current assets	12,595,564	7,807,277	5,238,426
Total assets	97,641,151	88,906,738	83,255,404
Equity	32,756,554	29,446,873	32,801,052
Non-current liabilities	50,739,860	50,903,244	44,601,880
Current liabilities	14,144,737	8,556,621	5,852,472
Total equity and liabilities	97,641,151	88,906,738	83,255,404

Figures in 2005 and 2006 are for Síminn, Skipti's predecessor.

The increase in current assets between 2006 and 2007 can be explained by the sale of Fasteignafélagid Jörfi ehf. as the cash balance rose. Accounts payables and other current liabilities have also increased.

The equity ratio was 33.5% at the year-end 2007 compared to 33.1% at year-end 2006. Subsequent to the admission to trading, Skipti will issue further shares with a combined value of up to ISK 1,189 million to a number of parties as consideration for acquisitions made by Skipti and its subsidiaries.

Liabilities were ISK 64,885 million at 31 December 2007 compared to ISK 59,460 million at the end of 2006. Skipti made ISK 3,263 million in instalments on non-current liabilities in 2007. New borrowings were ISK 3,085 million which were related to the acquisition of Ventelo.

Non-current borrowings were ISK 50,435 million in 31 December 2007 compared to 50,747 in 31 December 2006. The depreciation of the Icelandic króna in 2006 increased the book value of Skipti's borrowings from the previous year. For 2007, borrowings have remained stable and currently Skipti has hedged over 70.0% of its foreign currencies exposure to ISK-denominated debt via short-term contracts.

The increase in bank loans in 2007 is related to acquisitions. The company has moderate repayments of facilities in the years 2007-2012 and the first significant refinancing need is post 2012.

The Company generated ISK 9,014 million in cash from operations in 2007, which is a 4.2% increase from 2006. Cash generated by operations remains strong at the Company. The increase in leverage following the privatisation was considerable since non-current liabilities increased from ISK 4,361 million in 2004 to ISK 44,082 million in 2005. The Company has coped well with the increased leverage since 2005 and has not made any changes to its capital expenditure strategy.

Consolidated Cash Flow Statement 2005 - 2007

ISK thousands	2007 1.1 - 31.12	2006 1.1 - 31.12	2005 1.1 - 31.12
Cash flow from operating activities			
Cash generated by operation	9,014,477	8,654,280	7,518,989
Net cash from operating activities	6,890,515	6,706,310	6,190,236
Investing activities	(4,239,004)	(5,183,382)	(2,747,391)
Financing activities	1,610,903	(1,091,715)	(5,803,563)
Increase (decrease) in cash and cash equivalents	4,262,414	431,213	(2,360,718)
Cash and cash equivalents at the end of the year	5,269,137	1,053,380	464,870

Figures in 2005 and 2006 are for Síminn, Skipti's predecessor.

9.3 Financial ratios

The following table shows a number of Skipti's relevant financial ratios.

Key ratios

ISK thousands	2007 31.12	2006 31.12	2005 31.12
EBITDA ratio	28.50%	33.40%	33.80%
EBIT ratio	15.90%	18.20%	16.40%
Cash generated by operations	9,014,477	8,654,280	7,518,989
Cash generated by operations / Total revenues	27.00%	34.20%	34.11%
Equity ratio	33.50%	33.10%	39.40%

Figures in 2005 and 2006 are for Síminn, Skipti's predecessor.

10. PRIVATISATION OF LANDSSÍMI ÍSLANDS HF.

Landssími Íslands hf. was listed on ICEX Alternative Market in 2001 as a first step in the privatisation process of the company. In the offering, less than 2% of the share capital was sold and given the concentrated ownership it did not fulfil the requirements to be listed on the ICEX Main Market (now OMX ICE Main Market). At a later stage of the privatisation process, the Icelandic government decided to sell 98.8% to a strategic investor and subsequent to that sale, further outlined below, Landssími Íslands hf. was delisted in 2005.

The privatisation of Landssími Íslands hf. was completed in August 2005. The Executive Committee on Privatisation prepared the sale of shares in accordance with the policy formulated by the Icelandic government and Ministerial Committee on Privatisation. A decision was made to sell the remaining share of the Icelandic government of 98.8% to a single consortium of investors subject to the following conditions:[1]

- no single investor, parties related or connected, may acquire, directly or indirectly, a larger stake than 45% until listing on the Main List of the Iceland Stock Exchange (now OMX ICE Main Market);
- no less than 30% of Landssími Íslands hf. share capital shall be offered by the buyer to the general public and other investors for purchase before 31 December 2007;
- Landssími Íslands hf. shall be listed on the Main List of the Iceland Stock Exchange (now OMX ICE Main Market) concurrently with the sale to the public and other investors and redemption rights shall not be exercised vis-à-vis current shareholders prior to listing; and
- the consortium shall not have direct of indirect holdings in companies competing with Landssími Íslands hf.

Skipti ehf. submitted the winning bid and acquired 98.8% stake in Landssími Íslands hf. in August 2005. Skipti ehf. consisted of the following investors and their holding in Skipti ehf.:

Name	Proportional shareholding
Exista ehf.	45.00%
Kaupthing Bank hf.	30.00%
Lífeyrissjódur verslunarmanna	8.25%
Gildi-lífeyrissjóður	8.25%
Sameinadi lífeyrissjódurinn	2.25%
Samvinnulífeyrissjódurinn	2.25%
MP fjárfestingarbanki hf.	2.00%
IMIS ehf.	2.00%
Total	**100.00%**

Pursuant to the share purchase agreement with the government of Iceland, the consortium is now fulfilling the requirement that not less than 30% of the total share capital of Landssími Íslands hf. is to be offered for sale in a public offering prior to 31 December 2007. In addition, the consortium is complying with the requirement that Landssími Íslands hf. was to be listed on the Main List of the Iceland Stock Exchange (now OMX ICE Main Market) prior to 31 December 2007.

As Skipti hf. was in the process of bidding for up to 75% stake in Telekom Slovenije d.d., the incumbent telecommunications company in Slovenia, an extension was granted by the Ministry of Finance to offer 30% of Skipti's share capital and listing on OMX ICE Main Market no later than 31 March 2008. Given the size of the transaction, the impact on Skipti's operations and financial status and the fact that Skipti was bound by confidentiality, the Ministry of Finance shared Skipti's opinion that it was not possible to provide investors with all necessary information on the Issuer and its securities. The Securities Act no. 108/2007, Article 45, states that a prospectus shall contain all information which, according to the particular nature of the issuer and of the securities, is necessary to enable investors to assess the assets and liabilities, financial position, performance and prospects of the issuer and any guarantor, as appropriate, as well as the rights attaching to the securities. The privatisation committee decided on 3 March 2008, not to propose to the government the acceptance of Skipti's offer. Furthermore, Skipti's offer lapsed at GMT 16:00 on 3 March 2008.

1. Based on a press release from the Executive Committee on Privatisation made on the 4 April 2005, "Arrangement of sale of State shares in Iceland Telecom hf.", http://eng.forsaetisraduneyti.is/ministry/Privatisation/nr/1773.

One of the objectives of the share purchase agreement between Skipti and the Icelandic government was to offer a 30% share in Landssími Íslands hf. to the general public and other investors. Kaupthing Bank hf. will first offer its stake for sale while any shares sold in the offering above the shareholding of Kaupthing Bank hf. and up to 30% are to be sold by Exista.

10.1 Merger of Skipti ehf., Landssími Íslands hf. and Íslenska Sjónvarpsfélagid ehf.

As previously discussed, the Icelandic state sold its 98.8% stake in Landssími Íslands hf., Skipti hf.'s predecessor, to Skipti ehf. on 5 August 2005. Skipti ehf. was formed for this purpose by a consortium of investors led by Exista hf. and also included among others Kaupthing Bank hf. and four Icelandic pension funds. Skipti ehf. was a company which had been formed exclusively to finance and acquire the stake in Landssími Íslands hf. that was bought from the Icelandic state. Skipti ehf. purchased 6,949,732,496 shares or a 98.8% stake in Landssími Íslands hf. for ISK 66.7 billion or ISK 9.6 per share. Other shareholders in Landssími Íslands hf. owned 78,823,471 shares in the company prior to the merger which therefore had a market value of ISK 756,705,322.

A merger plan for Landssími Íslands hf., Skipti ehf. and Íslenska Sjónvarpsfélagid hf. was put into force on 31 October 2005 with a merger plan being filed with the Icelandic Register of Enterprises (Hlutafélagaskrá). The merger plan has been studied by Deloitte which has reviewed the merger accounts.

The merger took effect as of 30 June 2005. The merger created one company out of the three companies. The entity that continued was Landssími Íslands hf., which was simultaneously renamed Síminn hf. The two other companies were discontinued as independent entities. The purpose of the companies' merger was to increase efficiency in their operation.

Íslenska Sjónvarpsfélagid hf. was a company engaged in television broadcasting activities, most notable for its Skjár 1 TV channel. Íslenska Sjónvarpsfélagid hf. was at the time of the merger under the majority ownership of Landssími Íslands hf., which owned a 90% stake.

The paid in capital and number of shares in Skipti ehf. was ISK 30,000,000,000 which was considered the market value of Skipti ehf.

In the merger the shareholders of Skipti ehf. received 30,000,000,000 shares in Síminn hf. for their 30,000,000,000 shares in Skipti ehf. The merger therefore took place at a value of ISK 1 per share in relation to the market value of Skipti. The minority shareholders in Landssími Íslands hf. therefore received 756,705,322 shares in Síminn hf. which, at a value of ISK 1 per share, reflects the market value of their shares in Landssími Íslands hf. prior to the merger.

The minority shareholders in Íslenska Sjónvarpsfélagid hf. received 173,097,104 shares in Síminn hf. for their 144,247,587 shares in Íslenska Sjónvarpsfélagid hf. The shares in Íslenska Sjónvarpsfélagid hf. were therefore valued at ISK 1.2 per share. Accordingly the market value of the shares owned by the minority shareholders in Íslenska Sjónvarpsfélagid hf. was ISK 173,097,104 for which they received 173,097,104 shares in Síminn hf. at a price of ISK 1 per share.

The share capital in the merged company was accordingly ISK 30,929,802,426, with the shareholders in Skipti ehf. receiving 96.99% of the share capital, other shareholders in Landssími Íslands hf. prior to the merger receiving 2.45% and minority shareholders in Íslenska Sjónvarpsfélagid hf. receiving 0.56% of the share capital.

10.2 Demerger of Síminn hf. and Skipti hf.

On 19 December 2006, a demerger plan for Síminn hf. and Skipti hf. was submitted for shareholders' approval, and at a shareholders' meeting on 15 March 2007 the demerger was approved. With the demerger, Síminn hf. was split into Síminn hf. and Skipti hf. (a new company not to be confused with Skipti ehf.). The demerger schedule has been studied by Deloitte which has reviewed the demerger accounts.

The demerger was performed by transferring, a total of 21 shareholding of Síminn hf. in subsidiaries and other companies, into Skipti hf. In addition, shares with nominal value of ISK 10,058,675,734, were rendered by shareholders of Síminn hf. to Skipti hf. Debts and receivables with accrued interests, connected with the shareholding, were also transferred to Skipti hf. The date of the demerger was 31 October 2006.

The shareholders of Síminn hf. received all the shares in Skipti hf. at the nominal value ISK 7,000,000,000 representing 7,000,000,000 shares in return for their share in Síminn hf. of nominal value ISK 30,400,398,440.

After the demerger the total issued shares in Síminn hf. were decreased by ISK 20,341,722,706 to ISK 10,588,079,720. The share capital of Skipti hf. was increased in relation to this demerger from ISK 4,000,000 to a nominal value of ISK 7,000,000,000.

10.3 Demerger of Síminn hf., Fjarskiptanetid ehf. and Jörfi ehf.

A second demerger plan for Síminn hf. was put into force on 19 December 2006 with a demerger plan being submitted for shareholders' approval. A shareholders' meeting on 15 March 2007 approved the demerger. The demerger took effect as of 1 November 2006. The demerger schedule has been studied by Deloitte which has reviewed the demerger accounts.

The demerger plans of Síminn hf. were part of an organisational change where the objective was to have each operational unit run in a separate subsidiary all to be owned by one parent company, the holding company Skipti hf., which would not have any operations other than the holding of shares in subsidiaries and to present the Group as whole. For this purpose there was a second demerger whereby Síminn hf. was de-merged into three companies: Jörfi ehf, (now Fasteignafélagid Jörfi ehf.), Fjarskiptanetid ehf. (now Míla ehf.) and Síminn hf. Fasteignafélagid Jörfi ehf. was to hold the real estate, Míla ehf. the telecommunications network and Síminn hf. the remaining operations.

The assets and connected liabilities were moved into the receiving companies and the share capital of Síminn hf. was divided between Síminn hf., Fjarskiptanetid ehf. and Jörfi ehf. The shareholders of Síminn hf. became shareholders of the three companies in the same proportion as in Síminn hf. after the former demerger which took effect on 31 October 2006. The share capital of the receiving companies was ISK 3,500,000,000 of nominal value and after the demerger the share capital of Síminn hf. was ISK 7,088,079,720 of nominal value.

Through these demergers shareholders in Síminn hf. received primarily shares in Skipti hf. (the new parent holding company for the Group) but continued to own, in total 5% in Síminn hf., Fasteignafélagid Jörfi ehf. and Míla ehf.

In addition to the shares in Skipti hf. that the shareholders in Síminn hf. received, the shareholders also received 354,403,986 shares in Síminn hf., 25,000,000 shares in Fasteignafélagid Jörfi ehf., and 150,000,000 shares in Míla ehf.

After the demerger Skipti hf. therefore owned 95% of the issued shares in Síminn hf., Fasteignafélagid Jörfi ehf. and Míla ehf., with the shareholders of Skipti hf. holding a direct 5% ownership in each company in addition to their shareholding in Skipti hf.

On 6 June 2007 Kaupthing Bank hf. requested that its shares in Síminn hf., Fasteignafélagid Jörfi ehf. and Míla ehf. be purchased by Skipti hf. in return for shares in Skipti hf. on the same terms as the demerger took place whereby for each share in Síminn hf. Kaupthing Bank hf. would receive 0.8614545 shares in Skipti hf., for each share in Fasteignafélagid Jörfi ehf. Kaupthing Bank hf. would receive 0.3814433 shares in Skipti hf. and for each share in Míla ehf. Kaupthing Bank hf. would receive 0.3573883 shares in Skipti hf.

As Skipti hf. intended to apply for admission to trading on OMX ICE and Kaupthing Bank had committed to offer its shares in Skipti in the Offering in accordance with a shareholders' agreement made in connection with the acquisition of Landssími Íslands in 2005, Kaupthing Bank had to hold its shares in the entity that was going to be listed to be able to offer the shares to the public.

Other large shareholders subsequently made the same request and the board of directors of Skipti hf. decided to offer other shareholders of Síminn hf., Fasteignafélagid Jörfi ehf. and Míla ehf. to purchase their shares in the aforementioned companies on the same terms as described above. Many shareholders have accepted the offer and Skipti hf. now owns 99.99% in Síminn hf. and 99.99% in Míla ehf. Skipti did however sell all of its shareholding in Fasteignafélagid Jörfi ehf. to Exista Properties ehf. in late 2007. As a result of the acceptances of the offer described above, the share capital of Skipti hf. has been increased by 368,421,053 to 7,368,421,053.

11. INFORMATION ABOUT THE ISSUER

11.1 Issuer

Icelandic legal name: Skipti hf.
ID-No.: 460207-0880
Domicile: Ármúli 25, IS -108 Reykjavík, Iceland
Telephone number: +354 550 6000
Email: info@skipti.is
Legal form: Public Company in accordance with the Icelandic Act no. 2/1995
Share Capital: 7,368,421,053 (ISK 1.0 per share)
Website: www.skipti.com
Ticker: SKIPTI
ISIN Code: IS0000015089
Publication Calendar:
Interim report 1Q 2008, 29 April 2008
Interim report 2Q 2008, 31 July 2008
Interim report 3Q 2008, 31 October 2008
Interim report 4Q 2008, 30 January 2009

11.2 Incorporation

Skipti hf. is an Icelandic company which was incorporated on 31 October 2006 when Síminn hf. was de-merged into Skipti hf, the parent company, and Síminn hf. which became Skipti's subsidiary, but the Company traces its history back to 1906 when The Icelandic State Telephone Service was founded.

11.3 History at a glance

In August 2005, the Icelandic government finalised the privatisation of Landssími Íslands and sold its 98.8% share to Skipti ehf. Further information about the privatisation can be found in chapter 10 "Privatisation of Landssími Íslands hf.

In October 2005, three companies, Landssími Íslands, Íslenska sjónvarpsfélagid (The Icelandic Television Company) and the parent company, Skipti ehf. merged and the name was subsequently changed to Síminn hf. In March 2007 the following proposals of Síminn's board were approved: A new parent company called Skipti hf. was introduced and Síminn was split into three companies: Síminn hf. the main operating company; Fasteignafélagid Jörfi ehf., a real estate company, and Míla ehf. which owns and operates the national trunk and access networks in Iceland. The new structural change took effect from 31 October 2006.

The privatisation agreement contained a provision which obliged the acquirer to list the Company on a public stock market before the end of 2007. The Ministry of Finance granted an extension until the end of the first quarter of 2008 due to Skipti's participation in the privatisation process of Telekom Slovenije d.d. Applying for admission to trading of Skipti hf.'s shares now on the OMX ICE Main Market is in accordance with that requirement. The privatisation committee decided on 3 March 2008, not to propose to the government the acceptance of Skipti's offer. Furthermore, Skipti's offer lapsed at GMT 16:00 on 3 March 2008.

A few important dates in the history of Skipti and its predecessors:

1906 A submarine telegraph cable was laid from Scotland, through the Faroe Islands, to the east coast of Iceland.

1932 The first automatic telephone exchanges in Iceland were opened.

1962 The submarine cable, Scotice, between Iceland and Scotland was opened. In connection with the cable, telex services were established in Iceland.

1980 The Skyggnir Earth station went live and telephone calls to other countries were routed via satellite and direct calling to other countries became a reality.

1984 The first digital telephone exchanges were opened.

1985 The laying of fibre optic cable around Iceland began.

1986 Started operation of its NMT mobile network.

1994 Went live with its GSM network. A new submarine cable, Cantat-3, was opened. The roll-out of FTTC/FTTB infrastructure commences

1995 All telephone exchanges in Iceland were digitalised.

1998 The telephone and postal services were separated and Landssími Íslands hf. (later Síminn hf.). was founded and the telecommunications market was liberalised.

1998 Cable TV operations began.

1999 ADSL operations began.

2001 Landssími Íslands hf. was listed on ICEX Alternative Market.

2004 IPTV operations began and Landssími Íslands acquired Skjárinn, an Icelandic TV broadcaster. A new submarine cable, Farice 1, was opened.

2005 Landssími Íslands hf. was privatised when the Icelandic government sold its 98.8% share of the equity and the name was later changed to Síminn hf. and the company was delisted from the ICEX Alternative Market. VoD service on the IPTV began.

2006 Established Sirius IT and acquired the governmental IT services from TietoEnator in Denmark, Norway and Sweden.

2007 Reorganisation leading Síminn hf. to become a subsidiary of Skipti hf. and following that transaction Síminn was split into three companies, Fasteignafélagid Jörfi ehf,, Míla ehf, and Síminn hf. Fasteignafélagid Jörfi ehf. was sold in late 2007. 3G service starts.

2008 An IPO is underway and the Company applies its shares to be admitted to trading on OMX ICE before the end of the first quarter of 2008.

11.4 Objects

The object of the Company according to Article 3 of its Articles of Association is to invest funds tied by its shareholders in the Company's businesses activities, buying, selling and holding securities, especially in subsidiaries engaged in telecommunications and information technology, service to subsidiaries, buying, selling and administering real estate and liquid assets, together with credit activities in connection with the operation and other related operations. The Company may participate in the establishment of other companies and own shares in them, as well as establish companies in its sole ownership to undertake certain aspects of its operation.

11.5 Regulatory issues and applicable law

Skipti hf. is registered in Iceland and operates pursuant to Act no. 2/1995 on Public Limited Companies. Síminn hf. operates in accordance with Act no. 2/1995 on Public Limited Companies and is regulated under the Electronic Communications Act no. 81/2003. Míla ehf. operates in accordance with Act no. 138/1994 on Private Limited Companies and is regulated under the Electronic Communications Act no. 81/2003. Skjárinn ehf. operates in accordance with Act no. 138/1994 on Private Limited Companies and is regulated under Act no. 53/2000 on Radio Broadcasting. Other Icelandic subsidiaries of Skipti hf. operate in accordance with Act no. 138/1994 on Private Limited Companies.

The Post and Telecom Administration in Iceland (PTA) regulates and executes Electronic Communications within the territory of Iceland. The PTA operates in accordance with Act no. 69/2003 on The Post and Telecom Administration. Furthermore, Skipti hf. is subject to general competition laws, cf. Act No. 44/2005.

The Group's international operations are subject to the applicable laws regulating electronic communications 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 laws regulating the international electronic communications activities of the Group are similar to those regulating its domestic electronic communications as, within the European Economic Area, the laws regulating electronic communications derive from the internal market legislation of the European Economic Area and European Union.

12. SKIPTI'S ORGANISATION AND ACTIVITIES

12.1 Mission and strategy

Skipti's mission is to create shareholder value through a diversified group of profitable businesses. Skipti's aim is to develop its operations domestically and grow its operations internationally with special emphasis on northern Europe, particularly Scandinavia and the UK. Today Skipti operates domestically both on residential and corporate markets, but internationally on the corporate market.

Skipti offers comprehensive services in the field of telecommunications, internet, media/entertainment and electronics – or TIME for short, for residential customers. On the corporate market Skipti is an information and communication technology provider – or ICT for short. Skipti's business model aims at encompassing the whole value chain of its industries.

Skipti's goal is to maintain its leadership in TIME and ICT in the domestic market. Skipti will focus on external growth through strategic acquisitions of companies with presence on target markets. Following such acquisitions, Skipti intends to use its broad product offering from the domestic corporate market and its ability to act as a single source of supply for SME's ICT needs. This will facilitate quick market entry on target markets, enable cross-selling of products, stimulate further revenue growth and exploit the opportunity that is emerging with the convergence of traditional telecom services and information technology.

12.2 Organisational structure

Skipti is a holding company for a group of companies in the telecommunications and information technology industry.

Skipti divides its operating companies into domestic and international businesses, with the domestic businesses containing operations in Iceland and international businesses including those outside of Iceland. Skipti's international business is currently limited to the corporate market.

Skipti has already acquired four foreign companies in line with its strategy, three that operate in telecommunications for corporate markets: Aerofone in the UK, BusinessPhone and Ventelo in Denmark, and one company in the IT sector: Sirius IT which has operations in Sweden, Norway and Denmark.

The following table lists Skipti's main subsidiaries but more detailed information is provided in the chapters on legal structure and principal investments:

Name	Country	Activities	Ownership 31.12.2007
Síminn hf.	Iceland	Telecommunications	99.99%
Míla ehf.	Iceland	Telecommunications network	99.99%
Já Upplýsingaveitur ehf.	Iceland	Web search and directory services	100.00%
Skjárinn ehf.	Iceland	Media and entertainment	100.00%
Tæknivörur ehf.	Iceland	Telecom equipment wholesale	53.50%
Sensa ehf.	Iceland	Network integration and consulting	100.00%
Stefja hf. (Trackwell)	Iceland	Location based applications	56.44%*
Radíómidun ehf.	Iceland	Vertical telecom solutions	75.00%
On Waves ehf.	Iceland	Mobile phone services on ships	85.00%
Ventelo Denmark A/S	Denmark	Telecommunications	100.00%
BusinessPhone A/S	Denmark	Telecommunications	100.00%
Aerofone	UK	Telecommunications	100.00%
Sirius IT	Denmark/ Norway/Sweden	IT	92.21%**

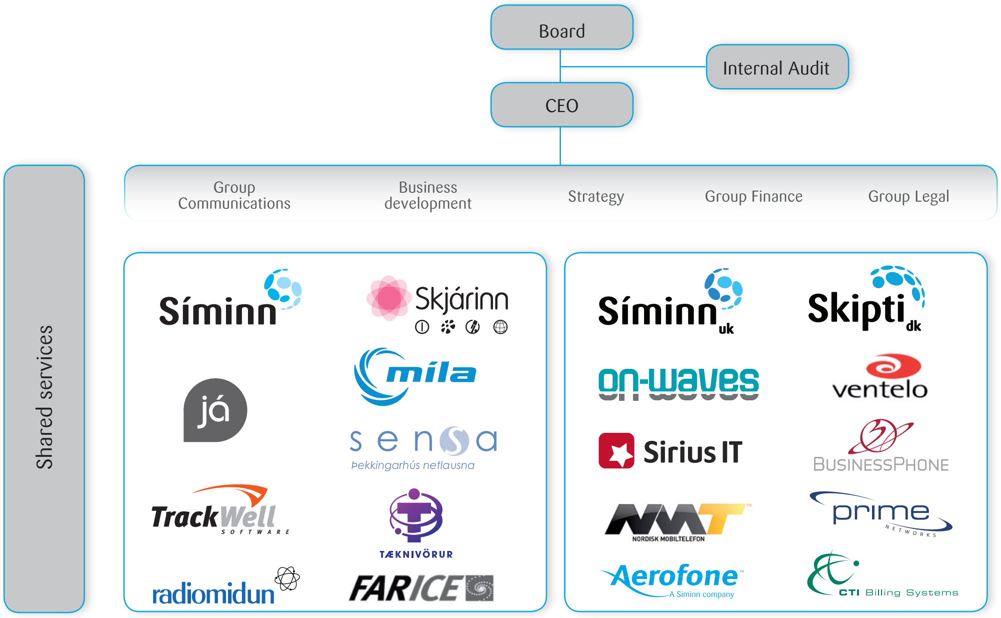
* Skipti holds 62,7% of the voting rights ** Skipti holds 77% of the voting rights

The CEO of Skipti is Brynjólfur Bjarnason. Mr Bjarnason is responsible for executing the board's resolutions regarding Skipti's policies and strategy as well as monitoring the financial performance of the group companies. He is also responsible for meeting the company's objectives and facilitating synergies within the Group.

The chairman, Lýdur Gudmundsson, is in charge of Skipti's strategy formulation, the vision for the Group as a whole along with other duties as chairman of the board.

12.2.1 Skipti's functional units

Skipti's headquarters are located at Ármúli 25, Reykjavik, Iceland but Skipti also has offices in the UK and Denmark. The businesses are supported by five divisions on group level: Business Development, Group Legal, Group Communications, Group Finance, Strategy and Shared services which sell finance and HR services to Skipti's subsidiaries. The structure is illustrated in the following diagram:



12.2.1.1 Shared Services

Under Shared services, Skipti operates two independent business units with different roles. These units are Human Resource and Finance. Both units were part of Síminn until 1 November 2007 when they where spun off and put directly under Skipti. The reason for this change comes from the fact that the function of these units has been changing from being cost centres into making service level agreements with different companies within the Group and have now become business service units for all of Skipti's subsidiaries

12.2.1.2 Human Resources

The role of the Human resources (HR) department is to support the direction and vision of Skipti's subsidiaries. This is done by hiring qualified employees and ensuring that the work environment is encouraging and competitive. HR is responsible for salaries, recruitment, employee education and assistance with strategic management, union relationships and negotiations, organisational changes and a number of other personnel related matters. The department is a consultant for Skipti's subsidiaries in relation to personnel matters and in some cases provides all HR services to them.

12.2.1.3 Finance

The role of the finance department is to support the operations of the profit centres, supporting departments and other Group companies. The department manages all finances for Síminn and Skipti, including treasury, collection, accounting, planning and analysis, procurement and logistics as well as income surveillance. The department emphasises thorough analysis and communication of information from the Group's operation and the telecommunication market as a whole along with supporting development and utilisation of the best methods of operations for the greater good of the Group. Additionally, the department has agreements with the main Group companies for the provision of shared financial services.

12.2.1.4 Internal Audit

The role of Skipti's internal audit is to provide and objective assessment of the group's operations, to counsel on improved operations and increased value of the group. The internal audit aims to increase the functionality of risk management and control.

12.2.1.5 Business Development

Business development is responsible for developing and maintaining the investment strategy for the group. It involves investments in new business opportunities and internal innovation.

Business development seeks new business and investment opportunities by means of acquisitions or partial ownership stakes.

12.2.1.6 Group Legal

Group legal is the denominator for legal practice within the group. The legal department has the responsibility of overseeing and leading a team of lawyers which is allocated in accordance with the expertise needed for each task. The fundamental role of the division is to provide legal advice on corporate law issues such as mergers and acquisition and related issues. The responsibilities moreover include legal research and analysis of regulation changes, court or government agencies' decisions which may affect the group's business units. The group employs a team of lawyers which provide expertise on complex issues regarding projects and obligations of individual subsidiaries

12.2.1.7 Group Communications

The main role of communications is to provide information about Skipti to the public, investors and the media. Communications assist the entities and the group with promotion and marketing of services, image and reaction to news related to the Company's operations. Investor relations fall under this function as well, including information about the group's performance on quarterly basis.

The communication function at Skipti serves all subsidiaries regarding public relations and investor relations.

12.2.1.8 Group Finance

Group finance at Skipti is responsible for financial management in accordance to the corporate strategy and analysis of financial reports and financial data. Group finance takes part in forming the corporate financial strategy and maintains the strategy throughout capital structure decisions.

12.2.1.9 Strategy

Corporate strategy and integration is responsible for the Company's strategy. This involves implementation and integration of Skipti's and its subsidiaries strategy. The unit furthermore oversees cost analysis, the execution of operational plans and operational efficiency. In addition it oversees the realisation of Skipti's goals and objectives and participates as an advisor in the development of the Company's organisational structure.

12.3 Principal markets

Skipti operates in two principal geographical markets: Iceland (the domestic market); and UK and Scandinavia (the international market).

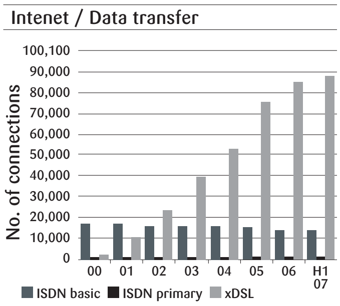
In the domestic market, Skipti operates on both the residential and corporate front. The demographics in the Icelandic domestic market are favourable for the telecommunications and technology industry. Although it has a small population of approximately 312,000, Iceland has one of the highest GDP per capita in the world. Population growth has been relatively high compared to other western European countries and Iceland's population is young and considered to be technically savvy. When new technology is introduced, the market is usually very responsive and high penetration rates have been achieved in a short period of time. This applies to both internet connections and mobile phone usage and the experience from the introduction of IPTV has been the same

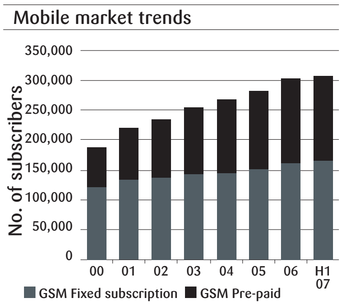
Market penetration rates in Iceland by year-end 2007:

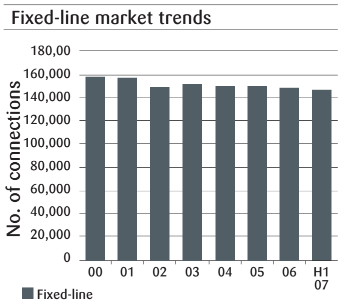
- By June 2007 there were over 308,000 active mobile subscriptions which corresponds to a mobile penetration above 100% for inhabitants old enough to use a mobile phone[2]
- 89% of homes have a personal computer[3]
- 84% of homes have an Internet connection[2]
- 89% of internet connected homes have ADSL[2]
- 30% of homes have IPTV[4]

The market for electronic communications consists of fixed-line, mobile and internet. In recent years the domestic market for fixed-line connections has shown a slow declining trend in terms of connections and subscribers. The mobile segment has gained at the cost of the fixed-line market as new technology has evolved, e.g. 3G which facilitates high speed data transfer and video telephony. The Icelandic market has a mobile penetration of over 100% according to the Icelandic PTA. The pictures below show development of the market trend in the last years for internet, mobile and fixed line services.

2. Source: The Post and Telecom Administration in Iceland, "Cellular telephone networks 1986 - 30. June 2007", http://www.pta.is/upload/files/Farsimakerfi_1986_30.6.07.pdf
3. Source: Statistics Iceland, News no. 66/2007, "Use of ICT and the Internet by households and individuals in Iceland 2007", http://www.statice.is/Pages/444?NewsID=2707
4. Based on information from Skipti according to sold devices to domestic households.







Source: PTA; Internet/Data transfer: "Access channels in the fixed telephone network and digital subscriber lines 1994-30/6 2007". http://www.pta.is/upload/files/Uppsettar%20linur%20%C3%AD%20Almenna%20s%C3%ADmanetinu%20 94*30.6.07.pdf
Fixed-line market trends: "Main telephone lines in the fixed network 1965-30/6 2007", http://www.pta.is/upload/files/ Notendalinur_1965_30.6.2007.pdf
Mobile market trends: "Cellular telephone networks 1986-30. June 2007", http://www.pta.is/upload/files/Farsimake rfi_1986_30.6.07.pdf

As the broadband technology has advanced with ADSL2+ and fibre-optic network, Voice over IP (VoIP) has achieved market share along with the distribution of video and television material. Details of how Skipti has taken advantage of this opportunity can be found in the section covering domestic activities.

Skipti is a leader in the Icelandic mobile market with a 64.4% market share in the residential market. In the corporate market the market share is even higher at 68.1%. Skipti also has a strong market position in the fixed line services market. In the residential market the market share is 73.3% and in the corporate market the market share is 70.7% in local calls and 67.8% in international calls.[5]

In the ICT market, Skipti serves its customers as a "one stop-shop" for various ICT needs, such as management of different systems that ensure they can make phone calls, run Blackberry services, access the internet and data, manage the network, take part in tele- and videoconferences, provide staff with work-from-home access, backup data and many more. With the eminent convergence of communications and IT solutions this is now changing. There is a need emerging in the market for service providers positioning themselves as 'solutions providers' by offering more consultative and professional services.

Both domestically and internationally, Skipti is an ICT provider for SME's and has subsidiaries in Iceland, Denmark, UK, Norway and Sweden that operate on the following market segments:

- Fixed line services including standard telephony over PSTN, ISDN, VoIP along with value-added services, such as network PBX hosting (Centrex) for PSTN, ISDN, GSM, and IP.
- Mobile services including GSM and GPRS/EDGE services and PIM solutions with Blackberry and Microsoft. 3G service and MobileTV.
- Data services. This consists of IP MPLS network with QoS, ATM, ADSL, IP business trunking, leased lines
- International Data Network via Cantant-3 and Farice and connection to Orange Data Business network around the world.
- Messaging Services such as SMS and MMS, SMS large account, SMS wholesale and unified messaging system for voice mail.
- Internet and hosting services including hosting & IT outsourcing, off-site storage and back-ups.
- Network infrastructure, network security, network management and content management.
- Consulting, design and technical services.
- Application management, software development and services of IT solutions.

There are many companies providing telecom services to SME's on Skipti's market. Competition on price for basic services like fixed voice minutes is very high and the barrier for customers to change service providers is relatively low.

The convergence of technology is the focus of Skipti's business strategy. Skipti believes that there is

5. Source: Capacent Gallup (December 2007). "Market shares in the internet, mobile and fixed line market." A survey created for Síminn by Capacent Gallup during November – December 2007 with a sample of 1500 people and a 61.4% response rate.a

a gap on the SME market for simple, effective ICT solutions for companies' telecoms requirements using latest technology. Skipti is building a broad platform in order to provide its current and future customers with state of the art telecommunications and IT solutions. This is being done by building on Skipti's position and product portfolio on the Icelandic market to create bundled, simple and effective ICT solutions for SME's that have similar needs and requirements as domestic clients. Skipti believes that this business strategy has several advantages such as:

- Increased customer loyalty with a broader range of services and higher technology degree;
- Improved margins on more value added services;
- Increased possibility of cross selling products to customers within the Group; and
- Improved customer benefits and savings with a single source of service provider.

The following table shows a breakdown of total revenues for the period covering 2005-2007 by category of activity:

Revenues – Split by activities ISK thousands

	2007	2006	2005	Percentage change	
	1.1 - 31.12	1.1 - 31.12	1.1 - 31.12	2007/2006	2006/2005
Telecommunications	24,337,295	21,424,553	19,826,032	13.6%	8.1%
Information technology	6,390,764	1,504,118	448,719	424.9%	335.0%
Media and entertainm.	2,629,710	2,366,468	1,766,681	11.1%	34.0%
Total	**33,357,769**	**25,295,140**	**22,041,432**	**31.9%**	**14.8%**

Figures in 2005 and 2006 are for Síminn, Skipti's predecessor.

Telecommunications represents 73% of the total revenues generated by Skipti in 2007, as opposed to 90% in 2005. Information Technology in 2007 accounted for 19% of total revenues, as opposed to 2% in 2005. This development is in line with Skipti's increased emphasis on providing its customers with more value added information technology solutions in addition to basic telecommunications services. The table also demonstrates that the bulk of Skipti's growth is driven by these activities. Media and entertainment accounted for 8% of total revenues both in 2005 and 2007.

The table below provides an overview of the split in total revenues by the domestic and international market:

Revenues – Split by geographics ISK thousands

	2007	2006	2005	Percentage change	
	1.1 - 31.12	1.1 - 31.12	1.1 - 31.12	2007/2006	2006/2005
Domestic	26,579,461	24,267,423	22,041,432	9.5%	10.1%
International	6,778,308	1,027,717	0	559.3%	nm.
Total	**33,357,769**	**25,295,140**	**22,041,432**	**31.9%**	**14.8%**

Figures in 2005 and 2006 are for Síminn, Skipti's predecessor.

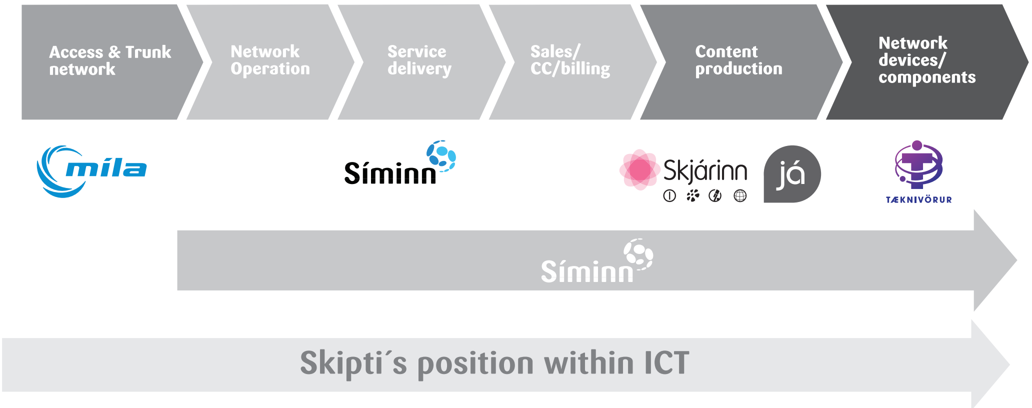
The domestic operations represent 80% of the total revenues generated by Skipti in 2007 while 20% of the revenues are generated by international operations mainly in the UK, Denmark, Sweden and Norway. The acquisitions of Sirius, Aerofone, BusinessPhone and Ventelo have increased Skipti's activities abroad. In 2005 Skipti had operations in Iceland only.

Skipti engages in telecom services on the basis of general authorisation to provide such services, as well as specific licences for use of frequencies e.g. but not limited to GSM 900, GSM 1800 and UMTS 2100. Skipti currently has all the licences and authorisations necessary for operating its businesses. However, the company may not always be able to maintain such licenses and loss of any license, could materially affect its business. Additionally, the growth of the Company's business may require further licenses and authorisations, and there is no guarantee that such licenses and authorisations would be granted. However, as licenses for frequencies are regarded as indirect property rights, the removal of such licenses has to be proportional and is also subject to stringent procedural rules.

12.4 Skipti's activities

12.4.1 TIME – Domestic activities

On the residential market, Skipti operates on the Telecommunications, Internet, Media/Entertainment and Electronics markets - or TIME for short. The aim is to have broad view of the whole value chain in the telecommunication industry and find opportunities to grow in each sector within TIME. Síminn, in collaboration with other subsidiaries within Skipti's group, acts as the service provider towards the customer for the whole product offering within TIME: The picture below shows Skipti's position within the TIME value chain. Míla provides the foundation for the services with its Access & Trunch network. Síminn is the "enabler" by providing the network operation, service delivery and everything regarding sales/CC/billing. Skjárinn and Já provide the content to the chain while Tæknivörur brings to it the network devices and components. A further description on how Skipti's subsidiaries deliver each part of TIME is provided in the following subchapters:



12.4.1.1 T - Telecommunications

Síminn and Míla deliver the T in TIME. Síminn is a telecommunications operator, delivering fixed line, mobile and internet communications to the Icelandic market while Míla is the Telecommunications network provider.

Síminn is the leading provider of wireless communications services in Iceland, reaching 98% of the Icelandic population. In addition to voice, messaging and data access, services include a wide range of value-added services such as mobile TV, video calls and a range of entertainment options, such as ringtones, icons and mobile music.

Síminn's fixed line and internet offering is based on convergent solutions such as IPTV. Síminn's IPTV is currently installed in 30% of Icelandic households.[6] The IPTV offering features more than 60 international TV channels, 11 local channels and more than 1200 VOD titles. Most Icelandic radio stations and a range of international music channels are also available. Síminn recently started delivering High Definition TV in selected areas and has started trial IPTV over fiber in new buildings.

Síminn's 3G network gives customers wireless broadband access using their mobile phones and computers, comparable in speed with that of low speed ADSL home connections. This means internet access wherever and whenever using a range of devices. The 3G network currently covers the capital area, home of 60% of Iceland's inhabitants.

12.4.1.2 I - Internet

Já represents the Internet part of Skipti's business strategy. Já is the local leader in web search and directory services through its web site www.ja.is. Serving approximately 1 million search queries per week, Já's management means it is in a position to grab an increasingly larger piece of the fast-growing online advertising business.

Já.is is a pioneer in keyword-based ads and positioned to expand into other web-based business areas such as online retail. The web also plays an increasing role for Síminn as sales and customer support is gradually moving to an online self-service environment, cutting operational costs while improving its service to Síminn's customers.

12.4.1.3 M - Media/Entertainment

The highly connected areas of Media and Entertainment are represented within Skipti by Skjárinn and partnerships with a range of international and local content providers. Skjárinn operates the youth TV channel SkjárEinn, the Video-On-Demand movie rental service SkjárBíó and bundled offerings of international television channels called SkjárHeimur.

6. Based on information from Skipti according to sold devices to domestic households.

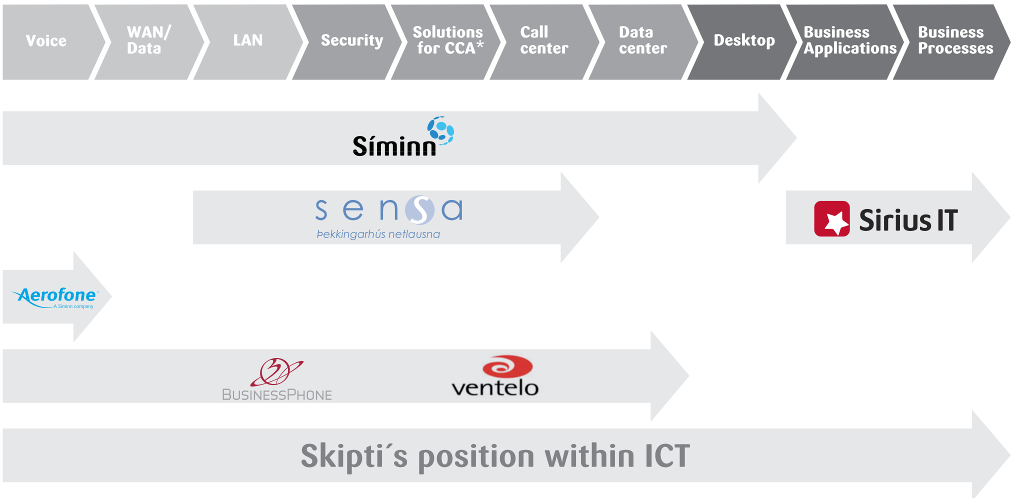
In addition, Síminn has entered into agreements with the media company 365 as well as the public radio and television company RUV, to sell and deliver their content and channels to Skipti's customers through IPTV and Mobile Television. Thus, by ensuring availability of high-quality content on its delivery channels, Skipti seeks to maximise the value of its telecom equipment and platforms.

12.4.1.4 E - Electronics

Tæknivörur represents the Electronic part of TIME. Tæknivörur is a wholesale company which imports and represents leading brands in telecommunications equipment, including Sony Ericsson, Samsung, Nokia, Doro, Thomson, Sagem and more.

12.4.2 Information Communication Technology

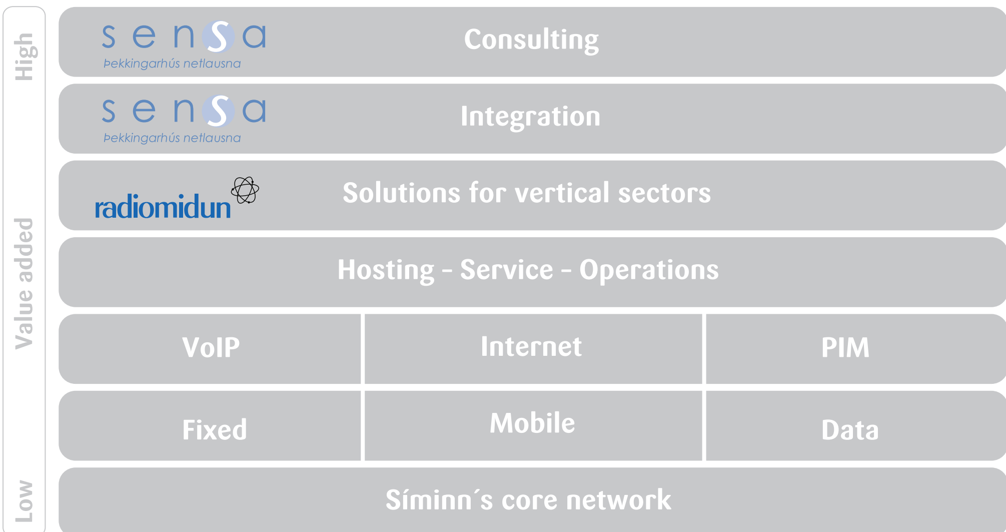
The following pictures provides an overview of Skipti's position within the ICT value chain, both domestic and internationally, and which services its subsidiaries provide. A more detailed description of Skipti's subsidiaries can be found the chapter: Description of the Group companies.



12.4.2.1 ICT – Domestic Activities

In the corporate market Skipti operates in the information communication technology, ICT. The core telecommunications business is tailored to the different needs of a wide range of business segments through integrated solutions for business. Skipti's recent acquisition of Sensa, a Cisco Gold system integrator and a leading company in IP and networking solutions brings valuable specialised knowledge of high end technology solutions and system integration to corporate clients.

Skipti has also been moving higher in the value chain by developing knowledge and experience in the IT sector in order to provide comprehensive consulting and enhanced services to its customers. The following picture provides a broad overview of the position of the value added services Skipti's subsidiaries provide .



For the past few years Skipti has been focusing on higher value added services. With the acquisition of Sensa along with the formation of two new divisions within Síminn that offer extended service and consulting services, Skipti has been able to offer valuable specialised knowledge of high-end technology solutions and systems integration to corporate clients. This does not only apply to an extended product and solutions offering, but just as importantly it allows Skipti to provide even more comprehensive and personal services, moving the service closer to the customer (into his workplace).

Skipti now has a comprehensive product range when it comes to servicing the information and communication needs of business customers. In addition it provides Síminn with a better insight into customer needs, which will allow Síminn to lower the customer's total cost of ownership (TCO) and build a personal business relationship with customers that is beneficial for both parties.

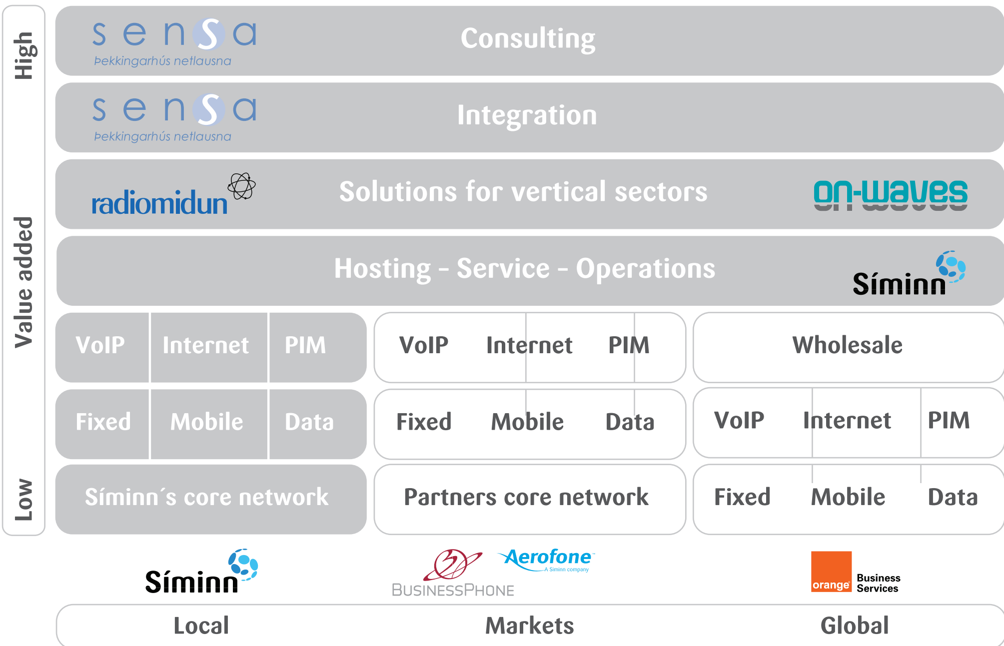
12.4.2.2 ICT - International activities

Skipti operates internationally through subsidiaries in the UK, Denmark, Sweden and Norway and its operations are currently focused on the corporate market. The total number of employees in its international businesses as at year-end 2007 was 499 and as at 31 December 2007 the international operations represented 20% of the total revenues of Skipti.

Skipti utilises its knowledge and expertise in servicing the corporate market in Iceland in its international expansion where the focus is to build a comprehensive ICT service offering for small and middle-sized companies that have similar needs and requirements as Skipti's domestic customers.

To offer services to Skipti's local customers abroad is often seen as the first step in Skipti's expansion. The next step is to provide general telecommunication services to small and medium-sized companies in the Nordic countries as well as in the UK. The goal is to build strong units in these markets and integrate a policy of ICT focusing on small to medium-sized companies. Skipti's strengths entail services provided to companies of this size since the majority of Skipti's current Icelandic customers fall under this category. The domestic strategy of the corporate market is therefore the foundation of Skipti's international strategy.

The following pictures provide an overview of Skipti's position within ICT value chain and which services its subsidiaries are capable of providing.



The UK and the Nordic countries are the key markets in Skipti's international expansion strategy. Emphasis has also been placed on strengthening services to Icelandic companies with operations in these markets.

Skipti expects these operations to grow and to facilitate that growth Skipti has offices in the UK and Denmark.

The first steps in line with this strategy have already been taken with the investments in Aerofone in the UK and Business Phone and Ventelo in Denmark, leveraging the expertise within Skipti to broaden the product offering to the customers of those companies.

Skipti's collaboration agreement regarding resale of Orange Business Services is also an important milestone in this respect. The agreement makes it possible for Skipti's clients to expand their IP net worldwide.

The international activities of Skipti are described in more detail in the following chapter "Description of the Group companies".

12.5 Description of the Group companies

Skipti holds numerous subsidiaries, each of them focusing on different activities and either on domestic or international markets. As Síminn is by far the largest entity within the Group, a detailed description of Síminn is presented, with a summary description of significant domestic and international subsidiaries and associates following it. Profit and capital related financial information is also provided for two of the largest subsidiaries; Síminn and Míla.

12.5.1 Síminn

Summary			
Legal name	Síminn hf.	**Proportion of capital held by Skipti hf.**	99.99%
Registered office	Ármúli 25, 108 Reykjavík, Iceland	**Managing Director**	Sævar Freyr Thráinsson
Field of activity	Telecommunications	**No. of employees 2007**	686

Average number of full-time employees 2007.

Financial information for 2007			
Issued capital	ISK 7,700 million	**Net sales**	ISK 21,113 million
Reserves	ISK 17,148 million	**EBIT**	ISK 3,910 million
Amount still to be paid up on shares held	ISK 0 million	**Profit 2007 from ordinary activities**	ISK 3,647 million
Amount of debts owed to Skipti	ISK 29,260 million	**Amount of dividends received in 2007 in respect of shares held**	ISK 0 million

Profit for 2007 is affected by the sale of Já Upplýsingaveitur ehf. to Skjá midlar ehf. The sale generated a profit of ISK 1,440 million which is eliminated from consolidated accounts of Skipti hf.
The borrowings are at Skipti hf. which extends credit to subsidiaries at market rates. These transactions are eliminated from consolidated accounts of Skipti hf.

Síminn hf. is Skipti's largest subsidiary and accounted for approximately 62.8% of the annual turnover of the Group in 2007. Síminn is the market leader in the telecommunication industry in Iceland and provides a broad range of telecommunication services to residential and corporate clients. Its range of services and solutions includes fixed and mobile subscriptions as well as Broadband/DSL solutions, TV, IP and Centrex network solutions.

12.5.1.1 Síminn's mission and vision

Síminn's vision is to become "the guide to tomorrow's boundary-less society". To maintain its leadership in telecommunications and expand into colliding IT and Content operations by providing instant gratification of on-demand services.

In the residential market, Síminn provides its customers solutions to experience the digital lifestyle by enabling them to stay connected at any time via different channels. Síminn's vision for TIME is to provide access to communication, and a broad range of content through different channels; fixed line, IPTV, mobile and broadband, tailored to its customers' needs.

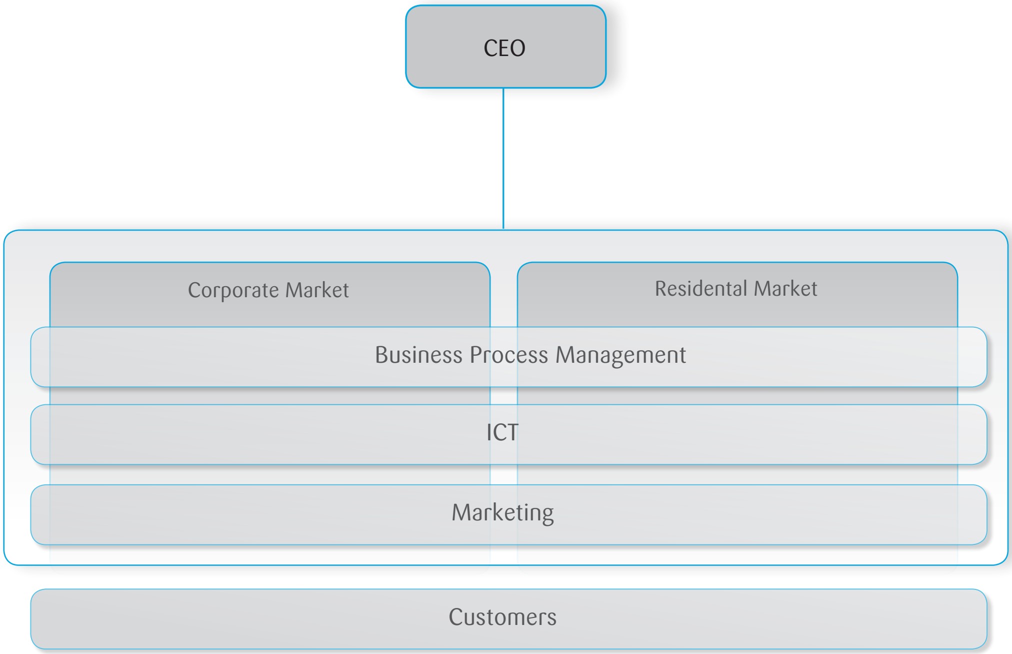
To support Skipti's strategy in the corporate market, Síminn provides companies with solutions based on the vision of ICT. The main emphasis of Síminn's strategy for ICT is:

- Tailor-made solutions for vertical markets;
- A consultative TCO approach to communications and technology solutions;
- International growth with expanding corporate base;
- Looking at customers as powerful business partners and offering them valuable consulting and services; and
- Providing powerful sales support emphasising solution based consulting.

12.5.1.2 Organisational structure of Síminn

In February 2008 Síminn adopted a new organisational structure which focused on the importance of the service aspects of the company's business and on convergence and solutions within the telecommunications market.

Síminn's organisational structure is centred on its two distinct markets: the residential market and the corporate market. Within each market, Síminn focuses on creating integrated solutions that fulfil the market needs of the customer, whether at home, at play or at work. Supporting Síminn in providing such solutions is the ICT division (Integrated Communication Technology) whose role is to operate, integrate and develop telecommunication and IT networks. Other support units include Business Process Management and Marketing. Síminn's organisational structure is outlined in the diagram below:



12.5.1.3 Integrated Communication Technology (ICT)

The ICT division is responsible for operating the telecommunication and information systems at Síminn. ICT is responsible for the development and integration of all new telecommunications and IT networks. ICT also monitors all of Síminn's ICT systems and handles all interconnect contracts and roaming agreements.

The main projects currently being undertaken within ICT are the UMTS, VoIP and IPTV projects. The UMTS, or 3G project was by far the largest project in 2007. The UMTS system was demonstrated at the end of May 2007 and was launched at the beginning of September 2007 in the capital area. The UMTS system will be implemented in other regions in the next few years, with most coming on-line this year. The UMTS system is a HSDPA system and one of the most advanced in the world.

The VoIP project is based on a Broadsoft solution and is being implemented in stages. This VoIP system will phase out the current VoIP solution.

The IPTV system continues to be augmented and enhanced. Síminn also introduced HDTV in the autumn of 2007, and will introduce HDVoD in the first half of 2008. nPVR is under development and Síminn intends that this will be available around the same time.

The main networks that Síminn's ICT division operates are:

- **Fixed line:** PSTN, ISDN, IN, VoIP and directory services;

- **Mobile:** NMT, GSM, Pre-paid GSM, SMS, MMS, GPRS, EDGE, OTA, HSDPA, SDP, trial UMTS 900, trial CDMA-450 and monitoring CDMA-450 systems in Norway and Sweden;

- **Data:** X.25, dial-up service, ADSL, ADSL2+, ATM, MPLS, D-channel, HotSpots, WiMAX, trial GPON and trial VDSL2;

- **TV:** Digital DVB-C, IPTV, VoD, MobileTV, HDTV, trial nPVR; and

- **Value add systems:** Voicemail, e-mail systems, Anti-SPAM system, Anti-Virus system, Centrex, X.400, Photo- and document storage (Safnid), Voting systems (900, SMS and IPTV (red button)), "Sea-mail" and VSAT.

Síminn seeks to deliver quality and reliable network operations. The network infrastructure is based on equipment from leading vendors within every field. The whole mobile network, including prepaid and the fixed networks come from Ericsson. DSL networks are provided from Alcatel-Lucent. Thomson provides the IPTV network. Cisco Systems is the provider of Síminn's IP/MPLS multiservice network. The IP/MPLS network is a certified "Cisco Powered Network". Many years of cooperation with leading infrastructure vendors has improved network quality and will most likely strengthen Síminn's future network evolution.

The UMTS service is based on advanced HSPA network technology from Ericsson, the leading UMTS infrastructure vendor.

In addition to the networks above the ICT division operates many network supporting systems, for provisioning, mediation, maintenance, fault finding and surveillance. All of the systems and services are monitored in Síminn's Network Operations Center, where the services of Síminn are under constant surveillance 24/7 all year round.

12.5.1.4 Business Process Management

Business Process Management (BPM) serves as the adhesive between Síminn's business units and the ICT division by building the internal IT and process bridges between different organisational entities. BPM develops, maintains and coordinates internal business processes.

The role of BPM is to:

- frame Síminn's strategy for business processes and underlying IT. The main goals are optimisation and simplification for the benefit of the business;
- be responsible for shared IT services, and also which services should be shared across the affiliate companies of Skipti to optimise resource usage;
- coordinate security and quality management; and
- develop and service Business Support Systems (BSS), e.g. ERP systems, billing and rating.

12.5.1.5 Marketing

The role of the marketing department is to further develop Síminn's focus as a market driven service company. The marketing department will support the development of Síminn's product and service offerings to its customers. The role of marketing is:

- framing and implementing marketing strategy;
- marketing research;
- managing Siminn's web site and other web sites of Siminn's sister companies; and
- market analysis, customer relation management and event management.

12.5.1.6 Síminn's general product offering

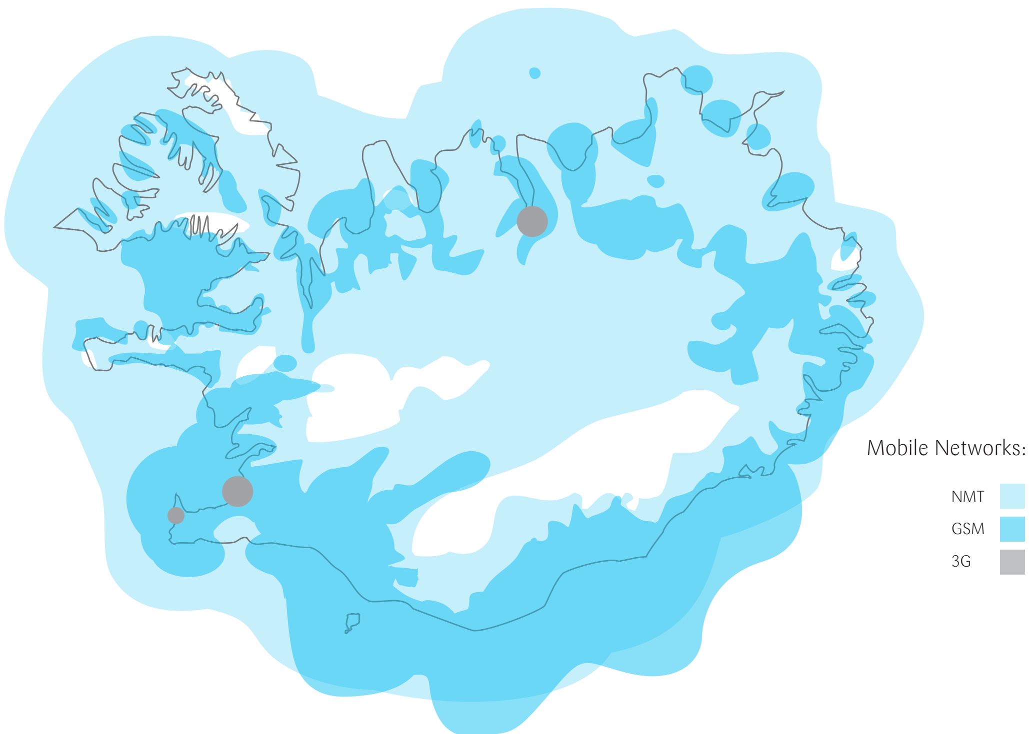
Since the liberalisation of the telecommunications market in Iceland, Síminn has maintained a significant market share, despite the current market environment of increased competition. This maintenance of market share is a testament to Síminn's emphasis on developing new technology, product development, sales and marketing abilities. As a result, the Icelandic Post and Telecommunication Administration (PTA) has ruled that Síminn and Míla have significant market power in the following markets:

- the retail market for the minimum set of leased lines (Market 7);
- the wholesale market for terminating segments of leased lines (Market 13); and
- the wholesale market for trunk segments of leased lines (Market 14).

The PTA has designate Síminn as having significant market power in the following markets:

- the wholesale market for access and call origination on public GSM mobile networks (Market 15);
- the wholesale market for access and call origination on public NMT mobile networks (Market 15); and
- the market for call termination on individual mobile phone networks (Market 16).

Being designated as having significant market power, the PTA imposes obligations on Síminn. These obligations include granting access and negotiating interconnection agreements to their networks, being transparent by e.g. publishing a reference offer, practise non-discrimination, hold separate accounts at wholesale and retail levels, and being subject to price controls.

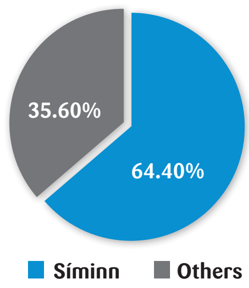


Mobile services

Síminn runs the largest GSM mobile network in Iceland with over 98% population coverage. The blue shaded part of the picture to the right shows Síminn's mobile coverage. Síminn offers a number of different subscription options depending on the customer's needs. Residential customers can choose from prepaid and postpaid contracts, and companies can choose from a variety of subscription services that are tailored to the needs of different sizes of companies. Along with traditional GSM services, Síminn also offers various value added service like mobile payment, Blackberry, Windows Mobile etc.

Guaranteeing international coverage as well as local coverage is of high importance to Síminn, as great emphasis is placed on guaranteeing customers a safe mobile connection abroad. Therefore, Síminn has been actively building its coverage abroad and has now more than 411 roaming agreements in 169 countries.

Market share
Mobile Residential 2007



In 2007 Síminn launched its 3G network build-out and offers a 3G/UMTS HSPA service in the Reykjavík capital area, Akureyri and Leifur Eiríksson international terminal. The 3G network build-out will then continue in the countryside.

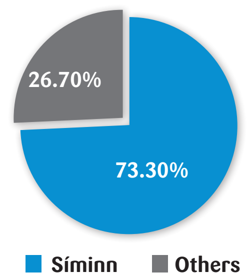
Síminn is a market leader in the Icelandic mobile market with 64.4% markets share in the residential market and 68.1%[7] in the corporate market.

Fixed Line Services

Síminn offers fixed line services to all homes and businesses in Iceland, including traditional telephone services and ISDN. Síminn also offers standard fixed line services and several value added services such as SMS and call forwarding.

Síminn offers ISDN PRI's along with network PBX hosting (Centrex) to the corporate market over traditional voice services (PSTN), ISDN, GSM and IP services.

Market share Fixed
Line Residential 2007



Síminn offers a VoIP service via a soft client that is installed in the customer's computer. The service allows customers to make calls to all fixed line telephones in Iceland, free of charge, via a connection through the Internet.

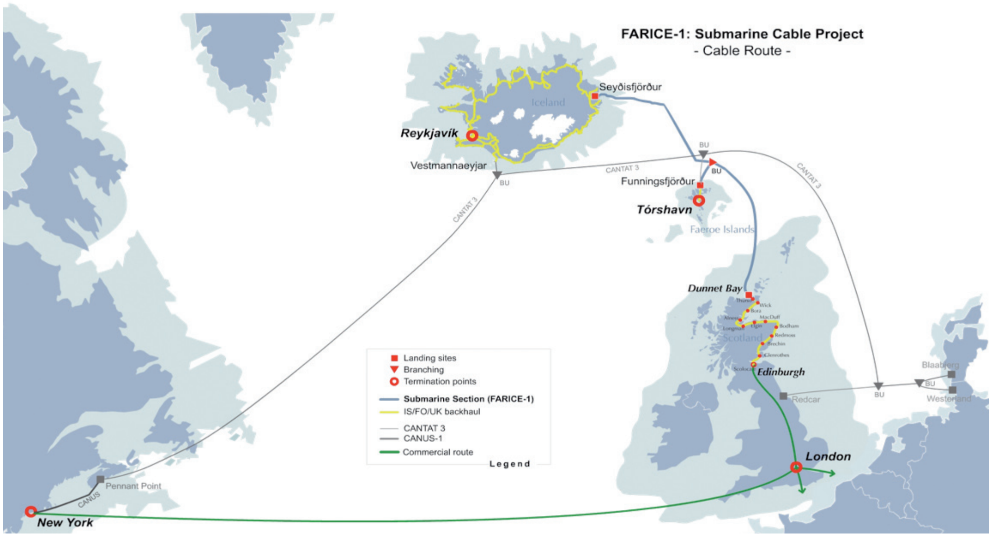
Síminn has a strong market position in fixed voice. In the residential market the market share is 73.3% and in the corporate market the market share is 70.7% in local calls and 67.8% in international calls.[8]

Data Services

Síminn operates the largest and most widespread IP network in Iceland, offering its customers traditional data connections, VPN's, Quality of Service and other value added services. It is a Cisco award winning MPLS network which has been updated to a great extent in the last couple of years and is optimised for the demanding IPTV/VOD traffic. Síminn is also in cooperation with Orange Business Services, which allows Síminn to extend its IP network worldwide and offer its customers a wide range of data services internationally.

Síminn has operated its own Internet Service Provider since 1996, and offers internet services to both the residential and corporate market. Síminn emphasizes secure Internet connections for its customers, but a significant step in that is having connections both on Farice and Cantat-3 submarine cables to Europe and Cantat-3 to the USA as can be seen on the following picture:

7. Source: Capacent Gallup (December 2007). Market shares in the internet, mobile and fixed line market. A survey created for Síminn by Capacent Gallup during November – December 2007 with a sample of 1500 people and a 61.4% response rate.
8 Source: Capacent Gallup (December 2007). Market shares in the internet, mobile and fixed line market. A survey created for Síminn by Capacent Gallup.



Síminn also offers its customers several value added services, such as web and domain hosting, virus detection, firewall, centralised storage etc. Additionally Síminn offers software and hardware hosting, desktop services, back-up services and other ICT services.

Síminn has operated ADSL services in Iceland since 1999, but the ADSL network now covers around 94% of the population. Internet connections via ADSL are the most common type of Internet connections within Icelandic households, and 89% of the Internet-connected households in Iceland used a DSL connection in 2007.[9] Síminn's service offering ranges from 1 Mbps up to 12 Mbps ADSL connections in addition to the 4.5Mbps IPTV service. In areas where ADSL access is not available, Síminn provides traditional PSTN services, ISDN services or WiMax, wireless connections. Síminn has 57.5% market share in ADSL services.

IPTV

IPTV was launched by Síminn in October 2004. The IPTV platform runs on Síminn's ADSL network and is currently installed in 30% of homes in Iceland. The IPTV service gives Síminn's subscribers access to more than 60 international TV channels as well as 11 local channels and also provides over 1200 VOD titles. Additionally most Icelandic radio stations as well as 20 foreign music channels offering different music genres are available. Estimated market share of 40% in TV distribution.

In January 2007 Síminn won The Cisco Networkers Innovation Awards for "Best Broadband IP Service" which can largely be attributed to the changes in Síminn's network infrastructure due to the deployment of IPTV. This award recognises Síminn at the forefront of deploying and successfully implementing innovative technologies that lead the field in delivering real and tangible benefits to customers.

12.5.1.7 Customer service

One of the key issues in Síminn's strategy is providing outstanding customer service. This goes from the technical quality of Síminn's networks and solutions to every point of contact Síminn has with its customers.

Síminn operates a 24/7 call centre for both the residential and the corporate market, and places a priority on maintaining a high service level. To monitor the quality of customer services, Síminn monitors the performance of its call centre employees. The answer rate and average waiting time is monitored and the results are published on Síminn's website on a weekly basis. In the first week of February 2008 the answering rate for technical assistance was over 86%. Approximately 56% of calls are answered within 20 seconds and the average waiting time has been 86 seconds. Síminn's technical assistance centre answers calls relating to IPTV, Internet/broadband, mobile, fixed line and various hosting issues.

Síminn emphasises quality and stability of its networks, offering extensive service levels. Service

9. Source: Statistics Iceland, News no. 66/2007, "Use of ICT and the Internet by households and individuals in Iceland 2007", http://www.statice.is/Pages/444?NewsID=2707

Level Agreements (SLA) are in the process of being implemented, where a certain service level will be guaranteed with higher end data solutions, and additional levels can be purchased specifically.

12.5.1.8 Síminn's main competitors

Síminn's main competitor in Iceland is Vodafone. Vodafone is a subsidiary of Teymi, which is listed on OMX ICE. Vodafone was formed when Tal hf. and Íslandssími hf. merged in 2002. Vodafone's main products are GSM mobile services, fixed line, ADSL and operations of a MMDS digital TV network. Vodafone has an agreement with Vodafone Group Plc. on using the Vodafone brand in addition to an agreement on co-operation and marketing. Recently Vodafone announced an agreement with Nova regarding roaming agreement on Nova's 3G network in Iceland and in return Nova will have access to Vodafone's GSM network.

Other competitors and potential competitors include Hive (IP fjarskipti ehf.) and Nova.

Teymi hf. and current owners of Hive entered into an agreement on 26 February 2008 where Teymi hf. acquires 51% stake in the latter. Hive is currently owned by Wireless Broadband Systems ehf. which also owns and operates eMax and Atlassimi. All of these companies compete in one way or another in the domain in which Síminn operates. Hive has offered services from autumn 2004 when it offered internet services with unlimited downloads. Currently Hive mainly operates in the residential market and has been successfully adding to its customer base. Wireless Broadband Systems ehf. has also announced that it is developing its own "4G technology" which it plans to offer in the Icelandic market as well as abroad.

Nova is one of the three companies that have a licence to build and operate a 3G mobile network in Iceland. The other two are Vodafone and Síminn. Nova is fully owned by the investment company Novator. Prior to receiving its 3G license, Nova received an experimental licence in 2006 and had built a basic 3G network in Iceland for experimental purposes.

Recently two telephone companies from Switzerland Amitelo AG and BebbiCell AG were awarded GSM 1800 mobile licences in Iceland in a beauty contest based on the speed of their projected network build-out and the projected size of their network.

12.5.2 Míla

Summary			
Legal name	Míla ehf.	**Proportion of capital held by Skipti hf.**	99.99%
Registered office	Stórhöfði 22 – 30, 110 Reykjavík, Iceland	**Managing Director**	Páll Á. Jónsson
Field of activity	Telecommunications network	**No. of employees 2007**	215

Average number of full-time employees 2007.

Financial information for 2007			
Issued capital	ISK 3,000 million	**Revenues**	ISK 4,452 million
Reserves	ISK 362 million	**EBIT**	ISK 1,330 million
Amount still to be paid up on shares held	ISK 0 million	**Profit/loss 2007 from ordinary activities**	ISK (398) million
Amount of debts owed to Skipti	ISK 16,243 million	**Amount of dividends received in 2007 in respect of shares held**	ISK 0 million

The borrowings are at Skipti hf. which extends credit to subsidiaries at market rates. These transactions are eliminated from consolidated accounts of Skipti hf.

Míla ehf. was formed in 2007 and builds on the century-old activities of Síminn's telecommunications network that has laid the foundation for all telecommunications in Iceland. Míla's headquarters are in Reykjavik but Míla also operates 12 divisions around the country. As at year-end 2007, Míla employed 215 people.

Míla's vision is to become a valued business partner in telecommunications and to operate a modern telecommunications network. Míla's function is to sell its solutions to companies and institutions engaging in telecommunications activities. Míla specialises in the operation of and consultancy on telecommunications systems, co-location leasing for information technology and various services for distribution systems.

Míla's activities are divided in to three main categories i.e. Access network, Trunk network and co-location services. Other telecommunications companies are Míla's main customers and they connect their networks to these networks through various solutions.

The Icelandic Post and Telecommunications Authority (PTA) has determined that Síminn and Míla have significant market power in the following:

- The retail market for the minimum set of leased lines (Market 7);
- The wholesale market for terminating segments of leased lines (Market 13); and
- The wholesale market for trunk segments of leased lines (Market 14).

Further more, the PTA has designated Míla as having significant market power in the market for wholesale access to local loops (Market 11).

Being designated as having significant market power, the PTA imposes obligations on Míla. These obligations include granting access to its networks, being transparent by e.g. publishing a reference offer, practising non-discrimination, holding separate accounts and being subject to price controls.

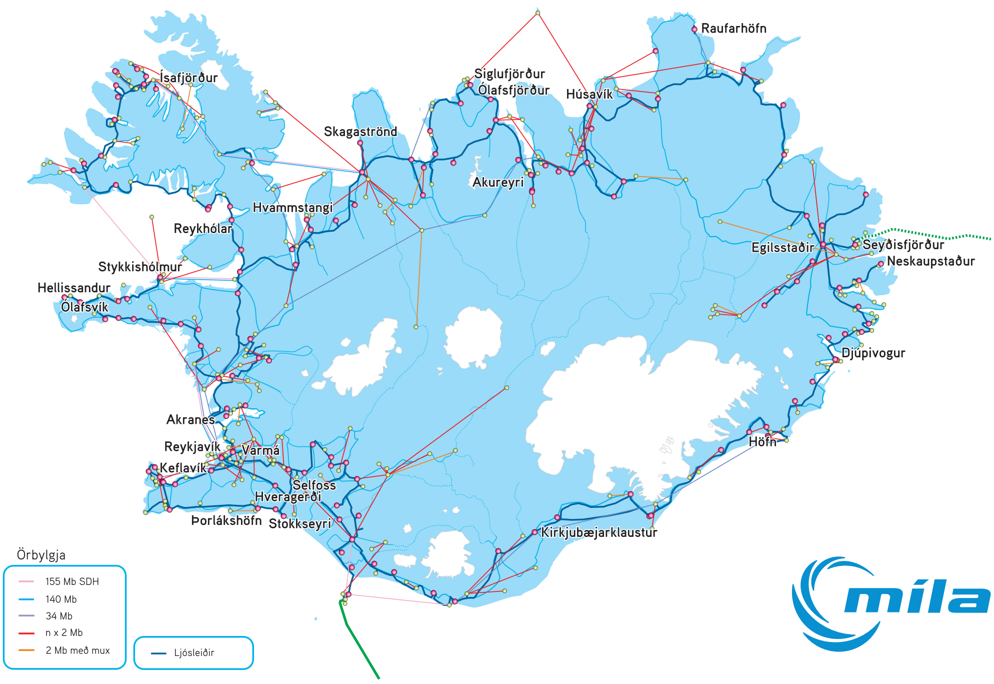
12.5.2.1 Access network

Míla's access network builds on copper lines, fiberoptic cables and microwave connections. Míla's copper line system is extensive since nearly all companies and households in Iceland are connected to the system. Síminn, Vodafone and others utilise the copper network to ADSL and fixed line telephony services. Míla has also built a FTTC access network that covered 38,000 homes in the Reykjavik area. This system has mainly been used by Síminn for TV distribution. Míla has been working on optical fiber access network in cooperation with Síminn. Míla utilises microwave connection in the access network mainly in rural areas.

12.5.2.2 Trunk network

Míla's trunk network is a base layer for all telecommunication systems and it connects to all telecommunication sites. The main trunk network is based on an optical fibre ring around the country and a branch to Ísafjördur. The capacity in the ring network in the south section is 40 times 10 Gbits/sec/sec on the north section it is however 40 times 2.5 Gbits/sec. The main product in the trunk network are leased lines of various speeds from 64 kbit/sec up to 2.5 Gbits/sec, those are leased to telecommunication companies to link GSM radio station, fixed telephony exchanges etc to central stations. Míla also owns high capacity trunk network within the Reykjavík area which connects all exchange sites in Reykjavík together.

The optical fibre cable covers over 4000km and connects major towns in Iceland. The vast majority of all national and international telecommunication traffic is on Míla's network, which also carries circuits for mobile networks, GSM, NMT and Tetra. Míla also operates a transport network connected to transmitters of almost every radio and television station in Iceland. The picture below provides an overview of Míla's fiberoptic (blue lines) and microwave (other colours) networks:



12.5.2.3 Co-location

Míla owns over 200 co-location sites around the country, these sites are connected to the main trunk network via optical fibre, microwave or copper lines connection. Spaces in those sites as well as space in masts are rented out to other telecommunication companies.

12.5.2.4 Other Activities

Míla operates the Farice and Cantat 3 submarine cable systems on contractual bases. Míla maintains all radio and television transmitters for the Icelandic National Broadcasting Service.

12.5.3 Tæknivörur

Summary			
Legal name	Tæknivörur ehf.	**Proportion of capital held by Skipti hf.**	53.5%
Registered office	Skútuvogur 12c, 104 Reykjavík, Iceland	**Managing Director**	Ásgeir Sverrisson
Field of activity	Telecom equipment wholesale	**No. of employees 2007**	23

Average number of full-time employees 2007.

Tæknivörur ehf. is a wholesale company which imports all of Síminn's user equipment and cooperates with other companies that sell telecommunication equipment. Tæknivörur sells products from, amongst others, Sony Ericsson, Samsung and Thomsons. The aim of Tæknivörur is to be a leader in the field of providing telecommunication equipment to both companies and individuals. In May 2007, Skipti sold 47.5% in Tæknivörur and has written a call option for the remainder of the share capital.

12.5.4 Radiomidun

Summary			
Legal name	Radíómiðun ehf.	**Proportion of capital held by Skipti hf.**	75%
Registered office	Klettagörðum 25, 104 Reykjavík, Iceland	**Managing Director**	Þröstur Ármannsson
Field of activity	Vertical telecom solutions	**No. of employees 2007**	0*

Average number of full-time employees 2007.
* Service agreement with Síminn hf. Employees included in Síminn's number of employees.

Radiomidun ehf. specialises in telecommunication solutions for the fishing industry. The company is a joint venture between Síminn and R. Sigmundsson, a company which provides VSAT and integration services for the fishing industry. The aim of Radiomidun is to provide tools and solutions tailormade to the global fishing industry.

12.5.5 Sensa

Summary			
Legal name	Sensa ehf.	**Proportion of capital held by Skipti hf.**	100%
Registered office	Kletthálsi 1, 110 Reykjavík, Iceland	**Managing Director**	Valgerður H. Skúladóttir
Field of activity	Network integration and consulting	**No. of employees 2007**	18

Average number of full-time employees 2007.

Sensa offers services in the field of network solutions to companies and institutions in Iceland. The services include:

- Consulting;
- Design;
- Technical services and operations;
- Sale of hardware;
- Contracts that secure access to backup systems, hardware responsibility and technical services; and
- Courses in network solutions.

The main focus of Sensa ehf. is network infrastructure, IP telephony, network security, network management and content management. Sensa has a System Integrator Agreement with Cisco Systems, which secures Sensa direct access to Cisco Systems, both regarding procurement of hardware and technical access, cooperation and possibilities of offering companies extensive contracts that relate to the products bought from Sensa. Sensa is a Cisco Gold Certified Partner, which demands from Sensa that it contains a high level of knowledge within the company, and that operations and processes are of the highest quality. Sensa is the only Icelandic company that has this certification.

12.5.6 Stefja (Trackwell)

Summary			
Legal name	Stefja hf.	**Proportion of capital held by Skipti hf**.	56,44%*
Registered office	Laugavegur 178, 105 Reykjavík, Iceland	**Managing Director**	Jón Ingi Björnsson
Field of activity	Location based applications	**No. of employees 2007**	25

Average number of full-time employees 2007.
* 62.7% of the voting rights.

Stefja hf. operates under the by-name Trackwell Software. TrackWell Software develops mission-critical systems for telecom operators, governmental institutions and other organisations. With its main focus on location-based applications for the professional and consumer markets. TrackWell's vision is to be a globally well-known company in the development of location-enabling services for wireless networks. Through good access to the Group's network, TrackWell has been able to demonstrate its technology prior to global market launch.

12.5.7 Skjá midlar

Summary			
Legal name	Skjá midlar ehf.	**Proportion of capital held by Skipti hf.**	100%
Registered office	Skipholti 31, 105 Reykjavík, Iceland	**Managing Director**	Sigríður Margrét Oddsdóttir
Field of activity	Media and entertainment2	**No. of employees 2007**	152

Average number of full-time employees 2007.

Skjá midlar ehf. is a holding company for Skjárinn and Já. The company was founded in the summer of 2007 and represents the entertainment and information media for Skipti. The company is an information and entertainment company serving consumers and is a valuable partner for advertisers.

Skjárinn

Distribution of content has become an integrated part of telecommunications and utilises the same networks and equipment as are used for providing telecommunication services. The importance of content distribution is likely to grow with increasing bandwidth and technical capabilities.

SKJÁREINN

Skjarinn (Skjárinn ehf.) was the first company in Iceland to offer interactive TV. Skjarinn was acquired by Síminn in 2004 as Síminn was preparing to launch its IPTV and needed a content provider for the rollout. Skjárinn was at that time the exclusive distributor of the English Premier League, a popular content in Iceland, which was a valuable platform to secure a successful launch of the IPTV.

The product portfolio offered by Skjárinn can be split into the three following categories:

Skjáreinn is a TV station which broadcasts material pursuant to agreements with large international media enterprises as well as its in-house produced content. The station is free of charge to viewers and the primary source of income is from advertising.

Skjárbíó, offering VOD via the IPTV. The customer can order a movie or other content by pushing a button on the remote control. The customer then sees the material instantly and gets charged for the service.

Skjárheimur sells subscription to bundles of international TV channels. The subscribers can choose to subscribe to over 60 TV stations.

Já

Já Upplýsingaveitur ehf. is a leading company in Iceland operating in the directory and yellow pages business.

Já publishes the only complete printed telephone directory in Iceland named Símaskráin, which has been published for more than 100 years. It is printed in around 230,000 copies annually and is distributed to around 90% of Icelandic homes. Símaskráin is free of charge to users but Já gets revenues from advertisers.

Já operates the 118 directory assistance as well as an online telephone and yellow pages directory, www.ja.is.

12.5.8 Farice

Summary			
Legal name	Farice hf.	**Proportion of capital held by Skipti hf.**	13.4%
Registered office	Skógarhlíð 12, 105 Reykjavík, Iceland	**Managing Director**	Guðmundur Gunnarsson
Field of activity	Submarine cable management	**No. of employees 2007**	n/a

Average number of full-time employees 2007.

Farice hf. is a joint venture company that was established in September 2002 for the purpose of preparing and operating a new international submarine cable system between Iceland and Europe. The FARICE-1 submarine cable system has three points of presence (POPs); in Reykjavík, Torshavn, Faroe Islands, and London. Services are offered on a lease basis with a one year minimum contract period. Icelandic shareholders now own 80% of the Farice shares through a holding company called Eignarhaldsfélagid Farice ehf. (also referred to as E-Farice) and the remaining 20% owned by Faroese shareholders.

Skipti owns 13.4% of the share capital in E-Farice. Other shareholders are Hitaveita Sudurnesja, Landsvirkjun, Orkuveita Reykjavíkur, the Icelandic state and Og fjarskipti. The largest energy companies in Iceland participated in a ISK 1,877 million share increase in November 2007. The increase is related to Danice which is a new submarine cable system. Skipti did not participate in that share increase.

12.5.9 Aerofone

Summary			
Legal name	Aerofone Ltd.	**Proportion of capital held by Skipti hf.**	100%
Registered office	Mandon Lane, Bedford, MK41 7TL, UK	**Managing Director**	Jo Marks
Field of activity	Telecommunications	**No. of employees 2007**	47

Average number of full-time employees 2007.

Aerofone is a UK based independent service provider for Business Telecommunications and Data Solutions. Aerofone was established in 1985 and acquired by Skipti in March 2007 via a holding company called Síminn UK.

Aerofone's mission is to give customers independent advice and provide quality solutions and service to businesses. Aerofone has continually developed its product offering since its early beginnings in 1985, at the outset of the mobile phone industry.

Aerofone's primary business objective is to build long-term customer relationships. Aerofone has won awards for Customer Service and Service Provision every year since 1998, and has been a finalist for the best customer service for the last nine consecutive years, winning "Mobile News Service Provider of the Year" twice in the last five years. Aerofone was also a finalist in the "Innovative Service" category for its "AeroBill Communication Management Solution" at the Mobile News Awards 2006.

Aerofone currently employs 47 people, has a client base of around 10,000 companies and focuses on solutions to SME's. Its product range consists of mobile voice solutions, PDA and Mobile Data, Land Line Solutions, Fleet Solutions and Converged Billing. Historically Aerofone has been entrepreneurial in adapting solutions using latest technology and offering professional services making it a good fit in the group. Following the acquisition, Aerofone will gradually start to increase its product offering and implement Skipti's ICT policy in the UK market. This will provide Aerofone with growth opportunities both in terms of new prospects and cross-selling to existing and new customers.

A service provider agreement with Vodafone entails a change of control provision. Should Vodafone use this change of control provision, it would have a negative impact on Aerofone's operations. Aerofone is now currently negotiating a new contract with Vodafone as this one will expire in end of 2008. Aerofone has in place another service provider agreement with O2 limiting the reliance on Vodafone.

12.5.10 Síminn DK

Summary			
Legal name	Siminn DK Aps	**Proportion of capital held by Skipti hf.**	100%
Registered office	Århusgade 88, 2100 Copenhagen, Denmark	**Managing Director**	Rasmus Helmich
Field of activity	Telecommunications	No. of employees 2007	66

Average number of full-time employees 2007.

In 2007 Skipti acquired Business Phone A/S and Ventelo Danmark A/S in Danmark. The operations of the two companies and its subsidiaries merged in February 2008 into Síminn DK to establish an integrated ICT operator in Denmark with a broad customer base and product portfolio. The combined company employs 66 people and the customer base consists of over 6,500 companies. Currently each client is on average subscribed to less than two solutions from a product portfolio of over 15 solutions. The increased service offering following the implementation of Skipti's ICT policy will provide Síminn DK both with opportunities in cross-selling to existing customers and signing on new prospects. The merger is expected to be formally completed in March 2008 by the legal merger of the two identities: Skipti DK and Síminn DK into Síminn DK.

12.5.10.1 Ventelo Denmark

Ventelo Denmark has operated in the Danish telecommunications and IT market since 1996. According to Computerworld, Ventelo Denmark was elected the best telecommunications and IT company for the years 2004-2006. Since the acquisition of WebPartner in 2006, Ventelo Denmark has operated IP telecommunications solutions in the Danish market.

Ventelo Denmark focused on the corporate market providing users with a comprehensive communications and IT services. Products and services offered include fixed-line, mobile and internet connections along with hosting and outsourcing services. Its client base of five thousand companies brought to Síminn DK includes both high profile corporations and public sector clients.

12.5.10.2 BusinessPhone

Business Phone A/S was founded in 1994 and acquired by Síminn in August 2007. Business Phone provides customers with a full range of integrated communication solutions including NEC telecommunication servers, handsets, applications and service provider solutions such as fixed line, mobile and internet connections combined with flexible, state of the art billing systems focusing on the needs of small and medium-sized businesses.

Business Phone brought to Síminn DK approximately 1,500 customers with around 40,000 end-users.

The Business Phone group consists of:

- BusinessPhone A/S that operates as a consultant, installation contractor, system integrator and reseller of communication servers;
- Prime Networks A/S that acts as a service provider offering a full range of corporate telecom solutions. Services include fixed line networks, mobile, internet and call management systems; and
- CTI Billing Systems A/S that provides customised call management systems to offices, hotels and related businesses as well as to other telecommunication and internet providers.

12.5.11 On-Waves

Summary			
Legal name	On – Waves ehf.	**Proportion of capital held by Skipti hf.**	85%
Registered office	Ármúla 25, 108 Reykjavík, Iceland	**Managing Director**	Constantin Simeonidis
Field of activity	Mobile phone services on ships	**No. of employees 2007**	4

Average number of full-time employees 2007.

On-Waves ehf. was founded in 2007 and provides wireless mobile network communications and enables GSM and CDMA coverage on board cruise & ferry vessels and on board cargo ships. The ships are connected via a satellite and the telephone calls are routed through Síminn's GSM station. The service is accessible to those passengers and crew that use telephone operators that have a roaming agreement with Síminn.

On-Waves provides all necessary infrastructure and expertise to implement and maintain a state of the art on-board communication system. This includes network on the vessel and all international interconnections and roaming agreements for call terminations around the world. On-Waves owns, operates, maintains and fully supports the entire network.

On-Waves makes exclusive agreements with ship owners that apply whilst ships are in International waters. Thus, passengers onboard Cruise & Ferry vessels can use the service to make and receive mobile phone calls, send SMS and use GPRS devices like Blackberry or other PDA's. At the end of year 2007 On-waves had agreements with 30 ships with up to 46,500 passengers travelling around the world.

12.5.12 Sirius IT

Summary			
Legal name	Sirius IT A/S	**Proportion of capital**	92.21%*
Registered office	Rygårds Allé 131, DK – 2900 Hellerup, Denmark	**Managing Director**	Kim Winther Jensen
Field of activity	Information Technology	**No. of employees 2007**	386

Average number of full-time employees 2007.
* 77% of voting rights.

12.5.12.1 History

Sirius IT was incorporated in Denmark in 2006 when Skipti, along with key management, acquired TietoEnator's Governmental services in Sweden and the assets of TietoEnator's Governmental services in Denmark and Norway.

12.5.12.2 Operations

Sirius IT offers application services, internet access, network management, transaction processing, security services, system integration, software solution services and various consultancy services.

Sirius IT has three subsidiaries, one in each country of operation. The company concentrates on providing value-adding IT solutions to the public sector as well as selected businesses in the private sector. The services include consultancy, system and product development.

12.5.12.3 Sirius IT Denmark

Sirius IT's Danish subsidiary operates from Copenhagen. The Danish subsidiary provides its own and third party solutions, and offers services related to the solutions it develops. It also maintains some core IT-systems for its customers.

The operation is split into two customer-centric business units, one for private customers and one for public customers. Each unit accounts for around 50% of sales. The company has long-standing relationships with around 200 customers. The Danish subsidiary targets large government authorities and administrations which have substantial IT budgets as well as larger corporations in Denmark.

Sirius IT Denmark has also developed its own IT solution for fishery administration and control which consists of a complete suite including logbook. Over the last decade eight nations have implemented this solution.

Michael Houghton-Larsen is the managing director of the Danish operations of Sirius IT. Michael has also served as a general manager for TietoEnator A/S.

12.5.12.4 Sirius IT Norway

Sirius IT's Norwegian subsidiary operates from Oslo. The Norwegian subsidiary offers IT services and solutions primarily to the government sector, but also to selected private customers.

Sirius IT Norway provides Oracle e-Business Suite and related integration, maintenance and implementation.

Carsten Boje Møller is the managing director of the Norwegian operations. Carsten has over 20 years' experience in the IT industry.

12.5.12.5 Sirius IT Sweden

Sirius IT Sweden's largest office is in Stockholm, but it also has offices in Malmö and Skellefteå.

The business is mainly split into consulting, IT solutions and services. Over half of the revenue comes from the consulting business. The Swedish subsidiary serves government authorities, municipalities, counties and other governmental organisations with IT services. The consulting side of the business is mainly concentrated on IT governance, systems development and application management. The solutions are designed to cover the need of internal governmental document and case handling.

Kim Winther Jenson is the CEO of Sirius IT as well as serving as the managing director of the Swedish operation. Kim has over 20 years' experience within the IT sector.

12.6 Principal Investments

In the years 2005 – 2007 the Group made the following principal investments which, with the exception of Kögun hf., are still held by Skipti, and the majority of which are more fully described in chapter 12 "Skipti's Organisation and Activities" where these now form part of the Group's operations:

Company	Country	Year of acquisition	Stake	Enterprise Value	Funding (capital increase, loans and from operation)
Ventelo Denmark A/S	Denmark	2007	100%	ISK 2,878 million	Debt funding
Business Phone A/S	Denmark	2007	100%	ISK 592 million	Internal funds
Aerophone Ltd.	UK	2007	100%	ISK 1,334 million	Debt funding
Sensa ehf.	Iceland	2007	100%	ISK 1,060 million	Internal funds and capital increase in Skipti after the IPO
Sirius IT	Denmark/ Norway/ Sweden	2006	92.2%	ISK 2,479 million	Debt funding and internal funds
Nordisk Mobiltelefon	Sweden	2006	7.2%	ISK 738 million	Internal funds
Kögun hf.	Iceland	2006	27%	ISK 3,302 million	Debt funding

Further information about the transactions which Skipti is financing through the issue of shares to the counterparties is set out in Chapter 16 "Major shareholders".

12.6.1 Investment activity in 2007

Skipti hf. acquired Ventelo Denmark A/S on 30 October 2007 for a consideration of ISK 2,878 million.

Síminn bought all shares in the Danish company Business Phone A/S in September 2007. The investment was funded by internal funds.

Síminn bought all shares in Sensa in April 2007. The investment of ISK 1,060 million is funded both by internal funds of ISK 220 million and with capital increase of ISK 840 million market value which will take place within a month of Skipti's admission to trading. The number of shares delivered will be determined by the offer price. Sensa will support Skipti's network solutions offering to the corporate market.

Síminn acquired Aerofone Ltd. in March 2007. The investment was funded with debt. The acquisition is in accordance with Skipti's strategy to expand its UK operations in business telecommunications and data solutions.

12.6.2 Investment activity in 2006

Sirius IT Holding A/S was incorporated in November 2006 when Skipti, along with key management, acquired TietoEnator's Governmental services in Sweden and the assets of TietoEnator's governmental services in Denmark and Norway. The investment was funded with the combination of debt and internal funds. The investment will strengthen Skipti's international IT operations.

In 2006 Skipti bought a 7.2% share in NMT (Nordisk Mobiltelefon) for ISK 738 million. Other investors in NMT are Orkla, Qualcomm and others. The investment was funded by internal funds.

In 2006 Síminn invested in a 27% share in Kögun hf, a software and IT company in Iceland. The invested amount was ISK 3,302 million, funded by a short-term debt. Síminn subsequently sold its share in Kögun hf. to Dagsbrún hf. later in 2006, posting a capital gain of ISK 598 million.

12.6.3 Future investments

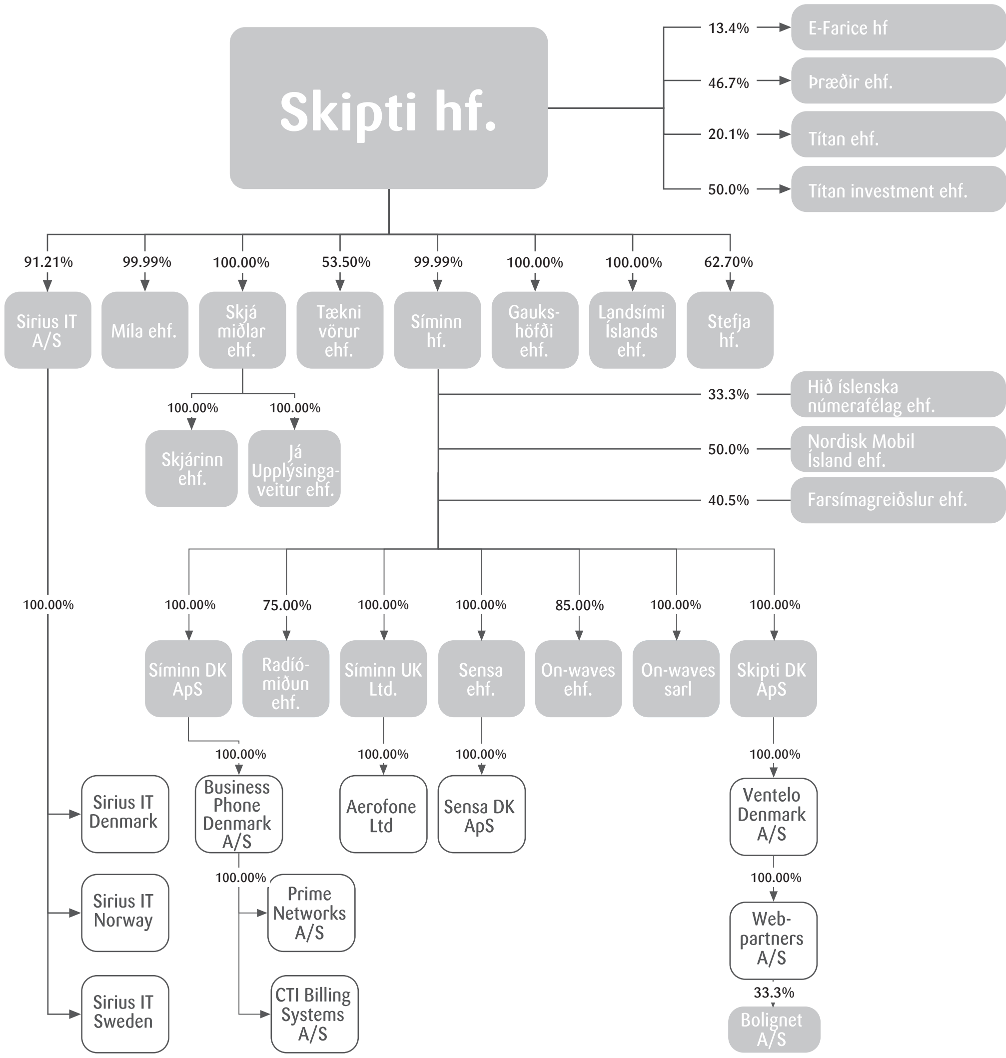
The Company has no principal investments in progress, and the Company's management has not made any firm commitments on future investments but is constantly evaluating new investment opportunities.

13. LEGAL STRUCTURE

13.1 Group structure

Skipti was formed by the demerger of Síminn as described in chapter 10 "Privatisation of Landssími Íslands hf." and in the documents on the demerger contained in the Appendix. The demerger of Síminn hf. was a part of an organisational change within the Group which had as its objective to have each operational unit run by separate subsidiaries under one parent company, Skipti hf., which has necessary resources to hold shares in other companies and to front the Group as a whole. In a connected demerger which took place at the same time, the Group's real estate and the core telecommunication network were placed in different subsidiaries rather than the parent company. Skipti's principal real estate company, Fasteignafélagid Jörfi ehf., was sold in 2007.

The Issuer is the parent company of the Group, and the structure of the Group is as set out in the chart below.



The Issuer's share in the ownership of each significant Group company is as set out in the following table. With the exception of its shareholding in Stefja hf. and Sirius IT, the Issuer's share of the voting rights in each Group company corresponds to its share of the ownership of the share capital as outlined in the following table.

Subsidiaries

Name	Country of incorporation	Operation	Ownership 31.12.2007
Aerofone	UK	UK	100.00%
BusinessPhone Group A/S	Denmark	Denmark	100.00%
Gaukshöfði ehf.	Iceland	Iceland	100.00%
Já Upplðsingaveitur ehf.	Iceland	Iceland	100.00%
Landssíminn ehf.	Iceland	Iceland	100.00%
Míla ehf.	Iceland	Iceland	99.99%
On-Waves ehf.	Iceland	Iceland	85.00%
On-Waves S.a.r.l.	Luxembourg	Iceland	100.00%
Radíómiðun ehf.	Iceland	Iceland	75.00%
Sensa DK Aps	Denmark	Denmark	100.00%
Sensa ehf.	Iceland	Iceland	100.00%
Síminn DK Aps	Denmark	Denmark	100.00%
Síminn hf.	Iceland	Iceland	99.99%
Síminn UK Ltd.	UK	UK	100.00%
Sirius IT A/S	Denmark	Denmark/Norway/Sweden	92.21%**
Skipti DK Aps	Denmark	Denmark	100.00%
Skjá Miðlar ehf.	Iceland	Iceland	100.00%
Skjárinn ehf.	Iceland	Iceland	100.00%
Stefja hf. (Trackwell)	Iceland	Iceland	56.44%*
Tæknivörur ehf.	Iceland	Iceland	53.50%
Ventelo A/S	Denmark	Denmark	100.00%

Associates

Name	Country of incorporation	Operation	Ownership 31.12.2007
Eignarhaldsfélagið Farice ehf.	Iceland	Iceland	13.40%
Farsímagreiðslur ehf.	Iceland	Iceland	40.50%
Hið íslenska númeraflutningsfélag ehf.	Iceland	Iceland	50.00%
Nordisk Mobil Ísland ehf.	Iceland	Iceland	50.00%
Títan upplýsingatækni ehf.	Iceland	Iceland	20.10%
Títan invest ehf.	Iceland	Iceland	50.00%
Þræðir ehf.	Iceland	Iceland	46.70%
Trackwell ADS Inc.	US	US	50.00%
Bolignet A/S	Denmark	Denmark	33.33%

* Skipti hf. holds 62.7% of the voting rights.
** Skipti hf. holds 77.0% of the voting rights.

The merger of Anza and Síminn is impending and Anza has been operated as a division of Síminn since 30 June 2007. The merger is expected to be completed in first quarter of 2008.

Within the Issuer there is a separate legal department which co-ordinates and provides, as applicable, legal advice to the Group.

The Issuer's legal and commercial name is Skipti hf., although the Group's services are provided under the legal and commercial names of the various Group companies.

Details of significant undertakings' operations are more fully described in chapter 12 "Skipti's Organisation and Activities".

14. ADMINISTRATIVE, MANAGEMENT, SUPERVISORY BODIES, AND SENIOR MANAGEMENT

14.1 Corporate governance

Corporate governance in Skipti is defined as the framework by which the Company is directed and controlled and the means by which relationships between the Company's management, its board, its shareholders and other stakeholders are conducted.

The board of directors of Skipti adopted rules of corporate governance at a meeting on 24 April 2007. The aim of the corporate governance programme is to ensure disclosure and transparency, define the responsibilities of the board and the management, define the rights and obligations of shareholders and stakeholders, ensure the equitable treatment of shareholders and avoid conflicts of interests between the parties. The board is ultimately responsible for Skipti's system of internal controls and for reviewing their effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement or loss.

The Corporate Governance rules adopted are in accordance with Guidelines on Corporate Governance (2nd edition) published by Iceland Chamber of Commerce, OMX Nordic Exchange Iceland hf. and SA - Confederation of Icelandic Employers. Skipti fully complies with the Guidelines and intends to follow them with respect to its future structure and management.

14.2 Statutory bodies

The supreme authority in the affairs of Skipti hf., within the limits established by its Articles of Association and statutory provisions, is in the hands of the Company's shareholders' meetings. Shareholders' meetings may be attended by shareholders, their representatives and advisors. Shareholders' meetings are open to representatives of the press and OMX ICE.

The annual general meeting of Skipti shall be held before the end of May each year and may be held outside the domicile of the Company.

At shareholders' meetings each share carries one vote. Decisions at shareholders' meetings are made by majority vote unless otherwise provided for in the Articles of Association or statutory law.

14.3 Board of directors

The board of Skipti manages the Company's general affairs and endeavours to keep the organisation and operations on course. The Company's board of directors directs company affairs and strives to ensure that the Company's organisation and activities are in good order at all times and that the accounting for and the handling of the Company's funds are sufficiently supervised. The board of directors is to promote the Company's success and supervise its management and overall operation. The board, together with the Chief Executive Officer, should take the initiative in formulating the company's strategy, both for the short term and the long term.

The board of directors of the Company is composed of six members, who are elected at a shareholders' meeting for a term of one year. The current board of directors was elected at the Annual General Meeting on 27 February 2008. The eligibility of members of the board is subject to statutory law.

The board of directors appoints a CEO of the Company and decides on the terms of his/her employment.

The board regularly assesses its own work, working methods and working procedures and the Company's performance, with the assistance of external parties if appropriate. Such performance assessment involves the board evaluating the strengths and weaknesses of its work and working methods and focuses on those aspects of its governance it feels could be improved. Skipti also assesses the activity, work practices and procedures of the board annually in light of the Company's progress, with the assistance of outside parties, when appropriate. The Working Procedures of the board of directors adopted on 24 April 2007 further state that board members should familiarise themselves with the provisions of law, the Company's Articles of Association, the general securities regulations, the special regulations of the Company on the handling of inside information and insider trading and other relevant rules.

The board of directors, taking into account the guidelines set out in the Guidelines on Corporate Governance (2nd edition) published by Iceland Chamber of Commerce, OMX Nordic Exchange

Iceland hf. and SA - Confederation of Icelandic Employers, considers that all the directors are independent of the Company and at least two of the directors at all times are and shall be independent of major shareholders in the Company.

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

Details of shareholdings of members of the board of directors, includes shares held by related parties (as defined in Regulation no. 987/2006 on Treatment of Insider Information and Insider Trading) of such board members.

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 service contracts providing for benefits for any member of the board upon termination of employment have been made with the Issuer or any of its subsidiaries.

No family relationships exist between any of the member of the board as it is now composed.

There are no 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.

Lýdur Gudmundsson, Ármúli 25, 108 Reykjavík, Iceland

Chairman of the Board, elected to the board of directors in 2005

Chairman of Exista hf.

Founder of Bakkavör hf. in 1986.

Current chairman of the board of Bakkavör Group hf. and Ufsastadir ehf., member of the board in Korkur ehf, Tjarnargata 35 ehf., Bakkavor (London) Ltd., Bakkavor Asia Ltd., Bakkavor Invest Ltd., Bakkavor Foods Ltd., Bakkavor Ltd. and Exista UK Ltd., in addition to board membership of Skipti's associates. Lýdur Gudmundsson has announced his candidacy for the board of directors in Kaupthing Bank hf. which is to be elected on the Annual General Meeting on 7 March 2008.

In the last five years Lýdur Gudmundsson was a board member of the Icelandic Chamber of Commerce, Fram Foods hf., VÍS Eignarhaldsfélag hf., Vátryggingafélag Íslands hf., Flaga Group hf., Exista ehf., Danco ehf., Meidur Holding S.A., Katsouris (Fresh Foods) Ltd., Bakkavor Birmingham Ltd. and Fillo Pastry Ltd.

Lýdur Gudmundsson owns 50% in Bakkabraedur Holding hf. which is a 45.2% owner of Exista hf. which owns 3,216,111,207 shares in Skipti hf. In addition to this, Lýdur Gudmundsson is a board member of Thrædir ehf. which own 42,881,483 shares in Skipti hf. Lýdur Gudmundsson is not related to other parties that own shares or options in Skipti. Lýdur Gudmundsson does not own any call or put options in Skipti.

Rannveig Rist, Ármúli 25, 108 Reykjavík, Iceland

Member of the Board, elected to the board of directors in 2002.

CEO of Alcan Iceland hf.

Rannveig Rist graduated with an MBA from the University of San Francisco in 1989 and B.Sc. degree in mechanical engineering from the University of Iceland in 1987.

Current Board member of the SA-Confederation of Icelandic Employers and SPRON.

In the last five years Rannveig Rist was a board member of the Icelandic Chamber of Commerce, SA-Confederation of Icelandic Employers and AMS (Aluminiumindustriens Miljøsekretariat).

Own holding and holding of spouse and children under 18 years of age in Skipti: 160,091 shares. Rannveig Rist does not hold any call or put options in Skipti. Related parties do not hold any shares in Skipti or any call or put options.

Sigurgeir Brynjar Kristgeirsson, Ármúli 25, 108 Reykjavík, Iceland

Member of the Board, elected to the board of directors in 2002.

CEO of Vinnslustödin hf.

Sigurgeir Brynjar Kristgeirsson graduated with an M.Sc. in economics from the University of York.

Current Board member of The Federation of Icelandic Fishing Vessel Owners and the Pension Fund for Vestmannaeyjar.

Sigurgeir Brynjar Kristgeirsson has not held any other board memberships or management roles in any other companies outside of the Group in the past 5 years.

Own holding and holding of spouse and children under 18 years of age in Skipti: 0 shares. Sigurgeir Brynjar Kristgeirsson does not hold any call or put options in Skipti. Related parties do not hold any shares in Skipti or any call or put options.

Erlendur Hjaltason, Ármúli 25, 108 Reykjavík, Iceland

Member of the Board, elected to the board of directors in 2006.

CEO of Exista hf.

Erlendur Hjaltason graduated with a B.Sc. degree in Business Administration and an MBA degree from Copenhagen Business School in 1984.

Current board member of Flaga Group hf., SPRON (chairman), Pond Street Investments ehf., Eignarhaldsfélagid Exista ehf., VÍS hf., Lýsing hf., Líftryggingafélag Íslands hf., Öryggismidstöd Íslands, Tölvur ehf., VÍS International Invest ehf., Flutningar ehf., Sp/f 14.

In the last five years Erlendur Hjaltason served as the CEO of Eimskip ehf. and a board member of Bakkavör Group hf., Fram Foods hf., VÍS eignarhaldsfélag hf. (chairman), Vöruhótelid ehf., Tjarnargata 35 ehf., Eimskip Norway AS, Eimskip Transport GmbH, Eimskip Nederland BV, Eimskip Transport AB, Euro container Line, Eimskip Denmark A/S, MGH Baltic BV, MGH Riga SIA, Eimskip BV, Star Line Shipping VB, Ljosa Line (Panama), Gelders Spetra Shipping BV, Melenstein Air BV, Eimskip Transp BV, Eimskip Belgium NV, Eimskip Shipping VB, Eimskip UK Ltd., East Trans Ltd., Pelican Cargo Ltd., MGH Ltd., Float Line Ltd., Eurohub Ltd., Maras Linija (UK) Ltd., PF Eimskip í Føroyum, Eimskip USA Inc., Harbour Grace CS Inc. and Eimskip Canada Inc.

Own holding and holding of spouse and children under 18 years of age in Skipti: 0 shares. Erlendur Hjaltason does not hold any call or put options in Skipti. Erlendur Hjaltason and financially related parties owns 24,468,862 shares (0.2%) in Exista hf. which owns 3,216,111,207 shares in Skipti hf.

Panikos J. Katsouris, Ármúli 25, 108 Reykjavík, Iceland

Member of the Board, elected to the board of directors in 2005.

CEO of Katsouris Brothers Ltd.

Panikos J. Katsouris graduated in 1974 with a B.Sc. in economics.

Current Board member of Katsouris Brothers Limited, Etchlord Ltd, Bakkavör Group hf., CC Taxi Limited, Katsouris Investments Ltd., Premium Quality Foods SA.

Panikos J. Katsouris has not held any other board memberships or management roles in any other companies outside of the Group in the past 5 years.

Own holding and holding of spouse and children under 18 years of age in Skipti: 0 shares. Panikos

J. Katsouris does not hold any call or put options in Skipti. Related parties do not hold any shares in Skipti or any call or put options.

Hildur Árnadóttir, Ármúli 25, 108 Reykjavík, Iceland

Member of the Board, elected to the board of directors in 2008.

CFO of Bakkavör Group hf.

Hildur Árnadóttir graduated with a Cand. Oceon degree in Business Administration from the University of Iceland and is a Chartered Accountant.

Current Board member of Exista hf., Fram Foods hf., Argyron hf., BAR-Holding ehf., the Icelandic Chamber of Commerce and the Finnish Icelandic Chamber of Commerce and an alternative member of the board of Kaupthing Bank hf. Hildur Árnadóttir has announced her candidacy as an alternative member for the board of directors in Kaupthing Bank hf. which is to be elected on the Annual General Meeting on 7 March 2008.

In the last five years Hildur Árnadóttir was a partner at KPMG hf. and sold her share before joining Bakkavör Group hf.

Own holding and holding of spouse and children under 18 years of age in Skipti: 0 shares. Hildur Árnadóttir does not hold any call or put options in Skipti. Hildur Árnadóttir and financially related parties own 114,351 shares in Skipti hf.

14.4 Board committees

The Board of Skipti hf. operates both an audit committee and a remuneration committee. Each committee consists of three members of the directors of the board of Skipti hf. who are competent to deal with the Company's financial issues or remuneration, as the case may be.

14.4.1 The audit committee

The audit committee's role is to ensure the integrity of the financial information reported to shareholders, control the Company's internal auditing and accounting system, evaluate the work of the Company's financial management and the Company's elected auditor. The committee's role should include the tasks stated in Section 3.1.A.3 of the Corporate Governance guidelines published by the Iceland Chamber of Commerce, OMX ICE and the SA-Confederation of Icelandic Employers.[10] The audit committee shall comprise at least three members, the majority of whom must be independent of the Company. The committee may comprise two members, however, in which case both of them must be independent of the company. Committee members must have the requisite experience and knowledge to carry out its work. Since the task of the audit committee is to deal with financial issues, results and supervision of the same, all committee members must have a thorough knowledge of accounting and preparation of financial statements.

Rannveig Rist, Erlendur Hjaltason and Sigurgeir Brynjar Kristgeirsson currently represent Skipti's audit committee.

14.4.2 The remuneration committee

The remuneration committee's role is to ensure that the executives' remuneration reflects the long-term performance of the company, their personal performance and the interests of the shareholders. The CEO is responsible for the remuneration of other employees and for ensuring that it remains in line with the policy of the remuneration committee. The remuneration committee's policy is to ensure that the Company can attract and retain high calibre executives. For these purposes the committee consults external advisers on levels of remuneration in comparable companies where appropriate. The remuneration package for executive directors consists of basic salary, annual bonus, pension arrangements and other taxable benefits. The committee's role should include the tasks stated in Section 3.1.B.3 of the Corporate Governance guidelines published by the Iceland Chamber of Commerce, OMX ICE and the SA-Confederation of Icelandic Employers.[11]

The remuneration committee also determines the policy of the Company regarding employee stock options. The principal provisions of stock option plans are to be submitted to a shareholders' meeting for approval. The remuneration committee shall comprise three members, the majority of whom must be independent of the Company. The committee may comprise two members, however, in which case both of them must be independent of the Company. Due to the nature of its work, neither the CEO nor other employees may serve on the committee.

10. These guidelines can be found on the following website: http://omxgroup.com/digitalAssets/23/23256_Recommendation_for_Icelandic_companies.pdf
11. These guidelines can be found on the following website: http://omxgroup.com/digitalAssets/23/23256_Recommendation_for_Icelandic_companies.pdf

Lýdur Gudmundsson, Rannveig Rist and Panikos Katsouris currently represent Skipti's remuneration committee.

14.5 Senior Management

The CEO is responsible for the Company's strategy, operations and finance and represents the Company in all matters regarding normal operations. The CEO is obliged to provide the board of directors and the auditors with all information on the Company's operations that they may request and is required to be provided according to law.

The Chief Executive Officer of Skipti is Brynjólfur Bjarnason, and the relevant senior managers of Skipti are as set out below.

No service contracts providing benefits for any of the senior management upon termination of employment have been made with the Issuer or any of its subsidiaries.

None of the senior management has had any convictions in relation to fraudulent offences in the previous five years. None of the senior management 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 have 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 member of the senior management as it is now composed.

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.

Brynjólfur Bjarnason, Ármúli 25, 108 Reykjavík, Iceland

CEO of Skipti hf. since 2007.

Experience

- CEO of Síminn, 2002-2007
- CEO, Grandi, 1984-2002
- Managing Director, Almenna bókafélagid, 1976-1983
- Head of Economics division, Federation of Icelandic Employers, 1973-1976

Qualifications

- MBA, University of Minnesota, 1973
- Cand. Oecon. University of Iceland, 1971

Current board member of SA-Confederation of Icelandic Employers.

In the last five years Brynjólfur Bjarnason has been a Board Member in Bakkavör Group hf. and Coldwater Seafood Group in addition to board membership of Skipti's subsidiaries and associates.

Own holding and holding of spouse and children under 18 years of age in Skipti: 84,619 shares and through Lambi ehf., a financially related party, 119,115,229 shares. Brynjólfur Bjarnason is also a board member in Thrædir ehf. which hold 42,881,483 shares in Skipti hf. Brynjólfur Bjarnason does not hold any call or put options.

Kristín Gudmundsdóttir, Ármúli 25, 108 Reykjavík, Iceland

VP Finance ,Skipti since 2007.

Experience

- Financial Director, Síminn 2003-2008
- Financial Director, Grandi, 1994-2002
- Director of accounting and planning, Íslandsbanki, 1990-1994

- Financial manager and other jobs, Idnadarbanki Íslands, 1974-1990

Qualifications

- Cand. Oecon., University of Iceland, 1980

Currently, Kristín Gudmundsdóttir is a board member of Skipti's subsidiaries and associates.

In the last five years Kristín Gudmundsdóttir has been a board member in Straumur, Farsímagreidslur ehf. and Sjóminjasafnid in addition to board membership of Skipti's subsidiaries and associates.

Own holding and holding of spouse and children under 18 years of age in Skipti: 0 shares and through Thrædir ehf., a financially related party, 4,288,148 shares. Kristín Gudmundsdóttir does not hold any call options and her put options are discussed in the description of Thrædir ehf. below.

Sævar Freyr Thráinsson, Ármúli 25, 108 Reykjavík, Iceland

CEO of Síminn hf. since 2007.

Experience

- VP of Síminn, Corporate market 2006-2007
- VP Mobile Services, Síminn, 2005-2006
- Managing Director, Sales and development - Data Division, Síminn, 2003-2004
- Managing Director, Solutions and development, Síminn, 2000-2002
- Managing Director of various departments of Síminn, 1996-2000

Qualifications

- Cand Oecon, University of Iceland, 1995

Current board member in the pension fund of Akranes in addition to board membership of Skipti's subsidiaries and associates.

Past board positions are none other than of Skipti's subsidiaries and associates.

Own holding and holding of spouse and children under 18 years of age in Skipti: 114,351 shares and through Thrædir ehf., a financially related party, 2,855,907 shares. Sævar Freyr Thráinsson does not hold any call options and his put options are discussed in the description of Thrædir ehf. below.

Páll Ásgrímsson, Ármúli 25, 108 Reykjavík, Iceland

CLO, Group General Counsel and Compliance Officer, Skipti hf.

Experience

- Vice-President, Legal and Regulatory Affairs at Síminn hf. since 1999
- Legal Advisor to the EFTA Secretariat and the EFTA Surveillance Authority, 1995-1999
- Director of Legal Affairs, the Icelandic Competition Authority, 1994-1995
- Legal Advisor to the Ministries for Commerce and Industry, 1992-1994

Qualifications

- Masters degree (LLM), European Law, London School of Economics 1991
- Lawyer (Cand. Jur.), University of Iceland, 1990

Currently Páll Ásgrímsson is board member of Yrki arkitektar ehf. in addition to Skipti's subsidiaries and associates.

Past board position are none other than of Skipti's subsidiaries and associates.

Own holding and holding of spouse and children under 18 years of age in Skipti: 114,351 shares and through Thrædir ehf., a financially related party, 2,855,907 shares. Páll Ásgrímsson does not hold any call options and his put options are discussed in the description of Thrædir ehf. below.

14.6 Remuneration and benefits

The table below provides a breakdown of the remuneration that Skipti hf. paid to members of the administrative, management and supervisory bodies of Skipti 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. It also provides information regarding holdings in Skipti hf. by these individuals at 31 January 2008.

None of the board of directors or senior management is subject to any restrictions on the disposal within a certain period of their holdings in the Issuer's securities. The Issuer has not set aside or accrued amounts to provide pension, retirement or similar benefits.

The table includes the members of board of directors, the CEO and others members of the executive committee.

	Salaries	Benefits	Bonuses	Pension payments	Holdings in own name	Call/put options	Holdings of holdings companies owned by insider	Holdings of other fin. related parties[1]
	ISK				Number of shares			
Lýdur Gudmundsson, Chairman	5,550,000	-	-	-		-	-	3,258,992,690[3]
Rannveig Rist	2,775,000	-	-	-	160,091	-	-	-
Sigurgeir Brynjar Kristgeirsson	2,775,000	-	-	-	-	-	-	
Erlendur Hjaltason	2,775,000	-	-	-	-	-	-	3,216,111,207
Panikos J. Katsouris	2,775,000	-	-	-	-	-	-	
Hildur Árnadóttir	-	-	-	-	-	-	-	114,351
Senior Management								
Brynjólfur Bjarnason, CEO	40,800,000	1,680,994	5,000,000	10,992,000	45,740	-	119,115,229[2]	42,920,3623
Kristín Gudmundsdóttir	21,497,700	1,372,810	1,500,000	459,954	-	-[4]	4,288,148[4]	-
Sævar Freyr Thráinsson	19,766,000	1,616,040	1,600,000	-	114,351	-[4]	2,855,907[4]	-
Páll Ásgrímsson	17,781,000	1,382,112	1,500,000	385,620	114,351	-[4]	2,855,907[4]	-

1 In references made to "related parties" that hold shares in the Company, related parties are linked to board members, where the board members have extensive influence over the investment activity of the related party. Holding of other financially related parties include shares owned by a spouse and children.
2 Lambi ehf., a holding company.
3 A board member of Thrædir ehf. but not a sh areholder.
4 Indirect ownership through Thrædir ehf, a holding company. See further discussion on Thrædir ehf. below.

Thrædir ehf.

Thrædir ehf. is a holding company, founded on 1 September 2006, owned by Skipti hf. and the senior management of Skipti hf. and Síminn hf. The company acquired on 7 November 2006, 180 million shares in Síminn hf. for ISK 225 million. After the demerger of Síminn hf. and Skipti hf., Thrædir ehf. now owns 42,881,483 shares in Skipti hf., representing 0.582% of the share capital. Skipti hf. has granted a loan of ISK 150 million to Thrædir ehf. to partially finance the purchase of the shares in Skipti hf. Due to a repayment further outlined below and Skipti acquiring the shareholdings of a former VP in Thrædir ehf. the loan currently stands at ISK 128 million. The shareholders of Thrædir ehf. repaid 10% of the loan within six months and the maturity of the remainder of the loan is 31 August 2009 with annual coupons that accumulate and are based on Skipti's cost of capital as set out in the financial accounts of the previous fiscal year. Ownership of Thrædir ehf. is as follows:

Kristín Gudmundsdóttir	10.00%
Páll Ásgrímsson	6.66%
Sævar Freyr Thráinsson	6.66%
Skipti hf.	46.66%
Other 5 VP's of Skipti/Síminn	30.02%

In the case of the resignation or summary dismissal of the employee before 1 July 2008 the shareholders of Thrædir ehf. have to surrender their shares in Thrædir ehf. In turn Skipti hf. therefore purchases the corresponding shares in Thrædir ehf. at the initial equity contribution (10% of the purchase price) of the shareholders in Thrædir ehf. in addition to REIBOR plus 2.50%. Shareholders of Thrædir ehf. can voluntarily surrender their shares with the same effect.

The board of directors of Thrædir ehf. is appointed by Skipti hf.

The aim is to dissolve the company 18 months after the admission to trading of Skipti hf. and the assets and liabilities will be transferred to the shareholders in accordance with their share in Thrædir ehf.

14.7 Auditors

A state-authorised public accountant or accounting firm is elected as the auditor at each Annual General Meeting of Skipti hf. for a term of one year. The auditor examines the Company's accounts and all relevant accounts documents for each year of operation, and has access to all the Company's books and documents for this purpose. Auditors are not elected from among the members of the board of the Company or employees. The qualifications and eligibility of the auditor at elections are in other respects governed by law.

The chartered accountants and registered auditor of Skipti are Deloitte hf. ID-No. 521098-2449, Smáratorgi 3, 201 Kópavogur, Iceland. The auditor responsible for Skipti and Síminn, Skipti's predecessor, for the duration of the period of 2005-2007 has been HIlmar A. Alfredsson, ID-No. 120759-5159, of Deloitte hf. The auditors' fee for 2005, 2006 and 2007 was as the following table outlines:

	2007	2006	2005
Auditing	12,560,744	5,917,510	3,559,043
Reviewing	3,778,012	2,353,778	-
Other services	19,731,887	6,440,211	1,208,602
	36,070,643	14,711,498	4,767,645

Figures in 2005 and 2006 are for Síminn, Skipti's predecessor.

14.8 Compliance officer

A compliance officer is employed within the Company. The compliance officer is directly responsible to the CEO and is independent in his or her duties. The compliance officer monitors the implementation of insider rules adopted by the Company, including rules regarding securities trading by employees and primary insiders. The compliance officer is responsible for interpreting the rules, and takes decisions based on the rules. The compliance officer makes proposals for improved working procedures for various positions within the Company, and helps develop and maintain the compliance monitoring system.

In accordance with applicable regulation and recommendations of the Icelandic Financial Supervisory Authority (FME) the Company will abide by to the rules of the FME.

15. EMPLOYEES

The average number of employees for 2007 at Skipti and its subsidiaries where Skipti owns more than 50% of the shares was 1,748.

Síminn has the largest number of employees within the Group, or just under 40% of all of Skipti's employees. Most of the employees work in Iceland, but over 28% of Skipti's employees now work outside of Iceland, with BusinessPhone and Ventelo employees in Denmark, Aerofone employees based in the UK and Sirius IT's employees spread across Denmark, Sweden and Norway.

	2007	2006	2005
Skipti	130	n/a	n/a
Síminn	686	971	1,059
Míla	215	n/a	n/a
Anza	n/a	76	72
Já Upplýsingaveitur	101	115	123
Skjárinn	51	54	n/a
Tæknivörur	23	19	19
Sensa	18	n/a	n/a
Trackwell	25	n/a	n/a
Sirius IT	386	391	n/a
Business Phone	15	n/a	n/a
Ventelo	51	n/a	n/a
Aerofone	47	n/a	n/a
Total	1,748	1,626	1,273

Average number of full-time employment 2007
Average number of full-time employment 2006
Average number of full-time employment 2005

There are various bonus schemes to motivate certain employees, that are linked to specific operational and financial targets. The Annual General Meeting on 27 February 2008 approved that a general option scheme could be put in place and therefore established that the Company can pay out remuneration in the form of shares in the Company to its employees. Call and put options at any given time may amount to up to 9% of the total issued share capital of the Company.

Share option agreements have already been entered into with 16 employees of Anza. The 16 employees are entitled by these share purchase agreements to purchase shares in Skipti with an aggregate market value of ISK 241,919,861 at a discount of ISK 109,525,907. The number of shares will be determined based on the offer price in the public offering. The options can be exercised in the period of June 2008 until September 2008 and the exercise price will be determined by the offer price in the public offering due in March 2008.

16. MAJOR SHAREHOLDERS

On 21 January 2008 there were 1,037 shareholders in Skipti. The ten largest shareholders owned a total of 97.9% of the Company's issued share capital.

When Síminn (now Skipti) was privatised in the summer of 2005, a condition was set by the Icelandic government that at least 30% of the share capital would have to be offered for sale in a public offering before the end of 2007 and the Company's shares listed on the Main List of the Iceland Stock Exchange (now the Main Market of OMX ICE). The Ministry of Finance granted an extension until the end of first quarter of 2008 due to Skipti's participation in the privatisation process of Telekom Slovenije d.d. It was agreed by the investor consortium that purchased Síminn that Kaupthing Bank would offer its stake in the Company in the public offering and that any additional shares required to reach the 30% threshold would be offered by Exista. Kaupthing holds 2,046,376,398 shares which are all to be offered in this Offering. A further 164,149,918 shares held by Exista are also being offered to satisfy the requirement of the Offer being for a 30% stake in Skipti, or 2,210,526,316 shares of a total of 7,368,421,053.

The Company has no knowledge of any agreement between the shareholders on the treatment of voting rights All shares have the same voting rights.

Exista currently owns 43.6% of the share capital in Skipti hf. and even if it sells the 164,149,918 shares it is offering in this Offering, it will still own over 40% of the share capital in Skipti hf, which is the mandatory takeover bid threshold. According to the FME's published interpretation of Article 100 of the Icelandic Act on Securities Transactions no. 108/2007 the obligation to issue a takeover bid does not arise due to a single shareholder or a shareholder acting in concert with others having legal control over a company at the time of admission to trading on a regulated market. This exemption is subject to the shareholding having been disclosed at the time of admission to trading. The Issuer consequently assumes that as long as Exista hf. does not acquire shares that increase its holding past the threshold of either 50%, 45% or 40% (in the latest cases after having first disposed of shares), Exista will not become obliged to issue a takeover bid for the remaining share capital of Skipti.

The Issuer also assumes that the obligation to issue a takeover bid will not arise in the event that the cancellation of shares results in Exista's holding exceeding the aforementioned thresholds.

As part of its process of acquiring new companies and businesses, the Issuer and its subsidiaries have entered into a number of transactions which provide for the issue of shares in the Issuer to the counterparties as consideration following an admission to trading of the Issuer's shares. The following issues of shares are therefore expected to take place following the proposed admission to trading of the Issuer's shares:

- The issue of shares in the Issuer with a value of ISK 840 million (the number of shares to be determined by reference to the offer price in the offering) to the sellers of Sensa. New shares will be issued and delivered to the sellers of Sensa at the price in the offering.

- The issue of shares in the Issuer with a value of ISK 242 million, with a discount of ISK 110 million, in relation to the share options of Anza's employees (the number of shares to be determined by reference to the offer price in the offering) to the 16 employees of Anza. New shares will be issued and delivered to the employees at the price in the offering less the discount. Skipti could fulfil these contracts by purchasing own shares and deliver to the employees.

- The issue of shares in the Issuer with a value of ISK 107,000,000 (the number of shares to be determined by reference to the offer price in the offering) in relation to a minor acquisition and certain conditional contractual obligations. Skipti could fulfil these contracts by purchasing own shares and deliver to their counterparties.

The above issues of shares will affect the ownership structure of the Issuer following admission to trading, and, as the number of shares to be issued is to be determined by the offer price, the exact numbers of shares to be issued pursuant to these transactions cannot be determined until the announcement of the offer price and admission to trading.

The Issuer is neither directly nor indirectly owned nor controlled by others than the listed shareholders to the extent known to the Issuer.

The Issuer is not aware of any arrangements which may at a subsequent date result in a change of control.

16.1 List of Shareholders

	Activity	Shares	Ownership
Exista hf.	Financial Services	3,216,111,207	43.6%
Kaupthing Bank	Bank	2,046,376,398	27.8%
Lífeyrissjódur Verslunarmanna	Pension Fund	589,620,388	8.0%
Gildi lífeyrissjódur	Pension Fund	589,620,388	8.0%
Stafir lífeyrissjódur	Pension Fund	160,897,780	2.2%
Sameinadi Lífeyrissjódurinn	Pension Fund	160,805,560	2.2%
MP Fjárfestingarbanki hf	Investment Bank	142,949,711	1.9%
Imis ehf	Holding Company	142,938,276	1.9%
Lambi ehf.	Holding Company	119,115,229	1.6%
Thrædir ehf.	Holding Company	42,881,483	0.6%
Ten largest		7,211,316,420	97.9%
Other 1,027 shareholders		157,104,633	2.1%
Total Share Capital		7,368,421,053	100.0%

The members of the board of directors, senior management and parties related to them, spouses and children under 18 years, hold together 587,763 shares in Skipti. Members of the senior management also hold 23.33% shares Thrædir ehf. which holds 42,881,483 shares in Skipti hf. The CEO of Skipti hf. owns 119,115,229 shares in Skipti hf. through Lambi ehf.

16.2 About the Largest Shareholders

Exista is a financial services company with operations in the areas of insurance, asset financing and investment activities. With centralised risk management, finance and communications, the group aims at becoming a leading financial services company with northern Europe as its primary market. Exista aims to expand its insurance and asset financing business, with a focus on diversification in income streams, strong cash flows and sound financial fundamentals. At the same time, Exista has ambitions to further increase and diversify its portfolio of assets in line with its mission and strategy statements. Exista operates one of the largest non-life insurance companies in Iceland, Vátryggingafélag Íslands hf., with a market share of about 30% in the Icelandic market.

Apart from its investment in Skipti, Exista is the largest shareholder in Kaupthing Bank, with a 23.0% stake, the largest shareholder in Sampo Group, with a 20.0% stake, and the largest shareholder in Bakkavör Group (UK food producer), with a 39.6% stake, and has other short-term and long-term investments in a diversified portfolio.

Exista is listed on OMX ICE.

Kaupthing Bank is a northern European bank offering integrated financial services to companies, institutional investors and individuals. These services include corporate banking, investment banking, capital markets services, asset management and comprehensive wealth management for private banking clients. In addition the Bank operates a retail franchise in Iceland, where it is headquartered.

The Bank operates in ten countries, including all the Nordic countries (Denmark, Finland, Iceland, Norway and Sweden), Luxembourg, Switzerland, the UK and the US. In Denmark, Kaupthing Bank operates under the name FIH Erhvervsbank.

The chapter "Notice to Investors" in this Share Registration Document describes the commercial relationship between Skipti and Kaupthing. Kaupthing is the selling shareholder together with Exista and is the Manager of the Offering further described in the Share Securities Note published 4 March 2008.

17. RELATED PARTY TRANSACTIONS

Skipti has a related party relationship with its subsidiaries, associates, the board of directors of the parent company, the CEO of Skipti, the managing directors of the most important subsidiaries, close family members of individuals referred to herein, and entities with significant influence as the largest shareholders of Skipti, which are Exista hf. (43.6%) and Kaupthing Bank hf. (27.8%).

The board of Skipti believes that all of Skipti's related party transactions are conducted at arm's length, both transactions between entities within the consolidation and transactions between any of the entities and related parties not part of the consolidation. Skipti engages in and expects to continue to engage in transactions with its affiliates, including the transactions described below.

Entities within the consolidation purchase services from each other when possible. The terms of such transactions are comparable to Skipti's business with external customers.

Outstanding loans between Skipti and associated companies amounted to ISK 128 million as at 31 December 2007. The loan is from Skipti to Thrædir ehf. For further discussion on Thrædir ehf., which members of the senior mangament of Skipti hf. and Síminn hf. own majority of the share capital, see chapter 14.6 "Remuneration and benefits". Skipti has also issued financial guarantees to Farice amounting to ISK 939 million.

Attention is drawn to the interests of the Manager and the Offerors (in a share offering described in the Share Securities Note dated 4 March 2008), Kaupthing Bank hf. and Exista hf., connected to the Issuer:

- Kaupthing Bank is the second largest shareholder in Skipti and holds 27.8% of the Company's total issued shares, which is to be offered in this share Offering.
- Exista is the largest shareholder in Skipti and holds 43.6% of the Company's total issued shares, of which 2.2% of Skipti's total issued shares are to be offered in this share Offering.
- Skipti is a customer of Kaupthing Bank's Investment Banking, Capital Markets and Corporate Banking divisions.
- Kaupthing Bank is among Skipti's larger creditors.
- Exista is the largest shareholder in Kaupthing Bank, with a 23.0% stake.
- Kaupthing Bank receives ISK 270 million as commission for being the Manager of the admission to trading and the Offering.

Skipti has entered into the following related party transactions:

1. Skipti sold its entire shareholding in Fasteignafélagid Jörfi ehf. to Exista Properties, a subsidiary of Exista, Skipti's largest shareholder for a total consideration of ISK 4,425 million. The profit of the sale amounted to ISK 1,396 million after taxes.
    - Fasteignafélagid Jörfi's properties were evaluated according to a coefficient of monthly rental income, in those instances where long-term lease agreements were present.
    - Other properties that are not subject to lease were evaluated specially by independent real estate agents.
    - Skipti will have pre-emptive rights if any of the properties or the company itself will be sold.
2. An ISK 32,000 million term loan facilities agreement dated 22 December 2005, with Kaupthing, Landsbanki Íslands hf., Íslandsbanki hf. (now Glitnir hf.), Nordic Investment Bank and Straumur-Burdarás Investment Bank hf. as Lead Arrangers, Sparisjódur Reykjavíkur og nágrennis as Arranger, and Kaupthing as Lender and Security Agent. The term loans are divided into Term loan A, Term Loan B and Term Loan C. The final maturity of the term loans varies from six to eight years from closing.
3. Kaupthing granted Síminn a revolving credit facility in the amount of ISK 2,000 million dated 22 December 2005. The final maturity of the revolving credit facility is six years from closing.

4. On 31 March 2006, Síminn entered into ISK 10,000 million bond interest take out facilities agreement, with Kaupthing as Arranger, Facility Agent, Lender and Security Agent for the purposes of financing interest payments under the ISK 14,000 million indexed bonds issued by Síminn on 2 January 2006. The final maturity date of the bond interest take out facility agreement is 2 April 2014.

5. Skipti has entered into a loan agreement with Kaupthing in the amount of ISK 3,007,568,923, maturing on 28 December 2013.

6. On 8 March 2007, in order to finance the acquisition of Aerofone, Síminn as borrower, Síminn UK as guarantor and Kaupthing inter alia as lender, entered into GBP 11 million Loan Facility Agreement. The initial repayment date of the loan is 30 June 2008 which may be extended under certain conditions until 30 December 2013.

7. On-Waves ehf. have entered into a Capex Facility Agreement with Kaupthing in the amount of EUR 2,000,000, dated 30 March 2007. The final maturity of the loan is 30 December 2011.

8. All of Skipti's insurance policies are placed with Vátryggingarfélag Íslands hf. (VÍS), Exista hf.'s subsidiary.

9. Term loan and revolving facilities in the aggregate amount of DKK 155 million; term loan in the amount of SEK 40 million and a mezzanine loan in the amount of DKK 18 million borrowed by Sirius IT from Kaupthing Bank hf. as original lender and agent dated 1 November 2007. Facilities are part of the acquisition finance in the takeover of the government services division of TietoEnator in 2006.

10. A guarantee statement of Kaupthing towards Fjarskiptasjódur for the benefit of Síminn, dated 28 March 2007 in the amount of ISK 31 million. Relates to Síminn's performance of its duties as contractor to the project Mobile Service in Iceland. Valid until 31 December 2013.

11. A guarantee statement of Kaupthing towards Fjarskiptasjódur for the benefit of Síminn, dated 20 April 2007 in the amount of ISK 50 million. Relates to Síminn's performance of its duties as contractor to the project Mobile Service in Iceland. Valid until 31 December 2013.

12. A guarantee statement of Kaupthing towards Fjarskiptasjódur for the benefit of Síminn, dated 11 April 2007 in the amount of ISK 140 million. Relates to Síminn's performance of its duties as contractor to the project Mobile Service in Iceland. Valid until 31 December 2013.

13. Síminn has entered into an agreement with Kaupthing on bank transactions, dated 11 January 2006. The agreement covers the following services: collecting of bills, general bank transactions (interest rates), foreign exchange transactions and cash pooling. The purpose of the agreement is to set forth a frame work agreement between Síminn and Kaupthing. The agreement can be terminated with three months' notice.

14. Síminn has entered into an agreement with Kaupthing on transaction fees in relation to securities, dated 10 February 2006. The agreement covers both trading with domestic and foreign securities. The agreement can be terminated with one month's notice.

15. Síminn has entered into an agreement with Kaupthing on debt management, dated 28 December 2005. Kaupthing commits itself to follow up on the development of the exchange rates in relation to Síminn's loan agreements, value the risk related thereto and set forth recommendations of how cost of capital can be reduced in each case. The agreement is for an undefined period and can be terminated with two weeks' notice.

16. Síminn provides Exista hf. with telecommunications services. Agreement is dated 21 December 2006 and is in force until terminated, which can be effected with six months' notice. Síminn also provides Kaupthing Bank hf. with telecommunications services.

17. All of Skjárinn midlar's ehf. insurance policies are placed with VÍS, Exista's subsidiary.

18. Skipti sold Gizmó ehf., a company owned by a former employee, 46.5% of the share capital in Tæknivörur for ISK 200 million. Skipti extended a loan of ISK 150 million to the acquirer with a pledge in 34.85% of the share capital of Tæknivörur. The loan matures in January 2010. Gizmó ehf. holds a call option to purchase the remaining share capital of Tæknivörur exercisable during the period of 1 January 2008 – 1 January 2010 with the same strike price as the previous 46.5% were acquired.

18. FINANCIAL OVERVIEW

The overview is based on Skipti's statutory account for the year-ended 31 December 2007 and Síminn's accounts for each of the years ended 31 December 2006, 2005. The accounts are based on IFRS accounting standards, and are prepared in a form consistent with that which will be used for Skipti's accounts for the year-ended 31 December 2008.

A demerger of Síminn took place with effective date 31 October 2006 whereby shares in subsidiaries and other companies, a total of 21 shareholdings, were moved into Skipti hf. The demerger of Síminn hf. is part of an organisational change within the consolidated group of Síminn hf. which has its objective to have each operational unit run in separate subsidiaries which are all owned by a holding company. The demerger does not however have any material effects on the Company's income statement and balance sheet. Skipti's consolidated accounts can therefore be compared to Síminn's consolidated accounts as the organisational changes have not changed the underlying assets or operations.

18.1 Skipti's statutory accounts

This section contains Síminn's audited accounts for the year 2005-2006, audited accounts for Skipti for the year-ended 31 December 2007. The quantitative analysis to follow will detail Skipti's financial performance in recent years. Investors are advised to read all the explanatory notes, including the descriptions of accounting policies, to the accounts which are presented in the Appendices to the Prospectus.

The management of Skipti is not aware of any governmental, economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, directly or indirectly, its operations.

Since the end of the last financial year there have been no significant extraordinary trends in production, sales and inventory, and costs and selling prices, and the management is not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Issuer in this financial year.

18.2 Profit and loss - statutory accounts

18.2.1 Annual accounts 2005 - 2007

18.2.1.1 2007 vs. 2006

Profit for 2007 was ISK 3,082 million compared to a loss of ISK 3,560 million in 2006. After-tax profit from continuing operations amounted to ISK 1,686 million and the sale of Fasteignafélagid Jörfi, generated a one-off profit after tax of ISK 1,396 million.

Net sales for the year 2007 amounted to ISK 32,719 million and increased by 30.7% compared to 2006, when the turnover was ISK 25,030 million. Aside from organic growth in all of Síminn's services, except fixed line telephony, the operations of Aerofone, BusinessPhone, Ventelo and Sensa were added to Skipti in 2007 and affect total turnover growth. Sirus IT was added in November 2006.

Operating expenses for 2007 amounted to ISK 9,094 million, compared to ISK 7,018 million in 2006. This is an increase of 29.6%. The 2007 EBITDA was ISK 9,493 million, representing a margin of 28.5%, compared with a 33.4% EBITDA margin in 2006. Sales prices have remained fairly constant in 2007 and the decline in EBITDA margin can be explained to large extent by the increased activity of Skipti in the IT sector, incorporating Sirius IT. The IT sector generally yields lower EBITDA margins compared to the telecommunications market, but on the other hand it requires less investment. Depreciation and amortisation amounted to ISK 4,202 million in 2007 and ISK 3,837 million in 2006.

Income Statement 2005 - 2007

ISK thousands	2007	2006	2005
Net sales	32,719,079	25,030,127	21,641,489
Cost of sales	(18,972,885)	(13,671,369)	(11,923,315)
Gross profit	13,746,194	11,358,758	9,718,174
Other operating income	638,690	265,013	399,943
Operating expenses	(9,093,817)	(7,018,256)	(6,511,884)
Operating profit	5,291,067	4,605,515	3,606,233
Finance costs	(3,274,070)	(8,936,267)	692,214
Share of loss in associates	(26,003)	(6,435)	(30,736)
Profit (loss) before tax	1,990,994	(4,337,187)	4,267,711
Income tax	(304,933)	777,461	(235,622)
Profit (loss) for the year from continuing operations	1,686,061	(3,559,726)	4,032,089
Discontinued operation:			
Profit for the year from discontinued operations	1,395,755	0	0
Profit (loss) for the year	3,081,816	(3,559,726)	4,032,089
Attributable to:			
Equity holders of the parent	3,045,801	(3,581,065)	4,019,749
Minority interest	36,015	21,339	12,340
	3,081,816	(3,559,726)	4,032,089

Figures in 2005 and 2006 are for Síminn, Skipti's predecessor.

Total financial cost including exchange losses was ISK 3,274 million in 2007 but ISK 8,936 million in 2006. Exchange gains amounted to ISK 71 million in 2007 compared to exchange losses of ISK 5,773 million in 2006. Income from investments and interest earned amounted to ISK 1,098 million compared to ISK 842 in 2006.

Skipti has concluded a share purchase agreement to Exista Properties ehf. for the sale of all its shareholding (99.98%) in Fasteignafélagid Jörfi, which owned and operated the real estates of the telecommunication services after transferring "technical buildings" to Míla ehf. The rationale for divesting Fasteignafélagid Jörfi is the fact that ownership and operation of real estates is not a part of the core business of Skipti. Skipti executed long-term leases for the premises of its business. The after-tax profit of the transaction was ISK 1,396 million. The proceeds from the sale will be used to repay debt and therefore decrease Skipti's future interest expenses. The net effect of the sale and executed long-term leases on net profit will be immaterial.

18.2.1.2 2006 vs. 2005

Loss for the year 2006 was ISK 3,560 million compared to a profit of ISK 4,032 million in 2005. The predominant reason for this turnaround can be traced to the depreciation of the Icelandic króna. Net sales increased from ISK 22,041 million to ISK 25,295 million or by 14.8%.

Operating expenses were ISK 7,018 million in 2006, compared to ISK 6,512 million in 2005, which represents a 7.8% increase. EBITDA was therefore ISK 8,443 million in 2006 and increased from ISK 7,454 million in 2005 or by 13.3%. The EBITDA margin was 33.4% in 2006 and 33.8% in 2005. Depreciation and amortisation amounted to ISK 3,837 million in 2006 and ISK 3,847 million in 2005.

Total financial cost including exchange losses were ISK 8,936 in 2006 but ISK 693 million in 2005. Exchange losses amounted to ISK 5,773 million in 2006 compared to an exchange profit of ISK 761 million in 2005. Income from investments and interest earned amounted to ISK 842 million in 2006 compared to ISK 1,402 million in 2005.

The Company then bought a 27% stake in Kögun hf. which was resold within the year with a sales profit of ISK 598 million. Taxes were positive due to losses in 2006 by ISK 777 million but were negative by ISK 236 million in 2005.

18.2.2 Turnover by activities

The following table shows Skipti's revenues for the period covering 2005-2007 segmented by major categories of products and services.

Total revenues[12] – Split by activities ISK thousands

	2007 1.1 - 31.12	2006 1.1 - 31.12	2005 1.1 - 31.12	Percentage change 2007/2006	2006/2005
Telecommunications	24,337,295	21,424,553	19,826,032	13.6%	8.1%
Information technology	6,390,764	1,504,118	448,719	424.9%	335.0%
Media and entertainm.	2,629,710	2,366,468	1,766,681	11.1%	34.0%
Total	**33,357,769**	**25,295,140**	**22,041,432**	**31.9%**	**14.8%**

Figures in 2005 and 2006 are for Síminn, Skipti's predecessor.

The main growth in the category of telecommunications for the period 2005-2007 can be traced to mobile services. This is in line with the general trend of migration from the fixed-line to mobile amongst customers. The acquisitions of Aerofone, BusinessPhone and Ventelo increased Skipti's telecommunications revenues.

Information technology revenues have consistently expanded over the period and the acquisition of Sirius IT in late 2006 and Sensa in early 2007 explain the substantial revenue growth from 2006 to 2007 in this category. Skipti's IT companies have also experienced healthy internal growth.

The media and entertainment category has realised growing operations with increasing revenues from Já Upplýsingaveitur and Skjárinn. The growth in data transfer is partly linked to the distribution of video and television material through broadband connections.

Skipti's net sales have not been influenced by any exceptional factors for the period covered.

18.2.3 Turnover by geographical markets

The following table outlines the geographical split of revenues and the profitability of domestic and international operations.

ISK thousands	2007		2006		2005	
	Domestic 1.1 - 31.12	International 1.1 - 31.12	Domestic 1.1 - 31.12	International 1.1 - 31.12	Domestic 1.1 - 31.12	International 1.1 - 31.12
Net sales	26,030,704	6,688,375	24,022,410	1,027,717	21,641,489	0
Cost of sales	(13,844,371)	(5,128,514)	(12,877,712)	(783,657)	(11,561,970)	0
Gross profit	12,186,333	1,559,861	11,144,698	244,060	10,079,519	0
Other operating income	548,757	89,933	265,013	0	399,943	0
Operating expense	(7,807,573)	(1,286,244)	(6,830,277)	(187,979)	(6,873,229)	0
Operating profit	4,927,517	363,550	4,579,434	56,081	3,606,233	0

Figures in 2005 and 2006 are for Síminn, Skipti's predecessor.

The domestic operations represent 79.6% of the net sales generated by Skipti in 2007 while 20.4% of the revenues are generated by international operations mainly in UK, Denmark, Sweden and Norway. The acquisitions of Sirius, Aerofone, BusinessPhone and Ventelo have increased Skipti's activities abroad.

The domestic gross margin is 46.8% compared to a margin of 23.3% for the international operations. The difference can be reconciled by two main reasons. Firstly, there one-time costs related to the acquisitions of international operations listed above. Secondly, there is the difference in the businesses of domestic and international operations. The domestic part of Skipti entails to a large extent, telecommunications revenues which generally have a higher margin than the recently acquired Sirius IT (which constitutes the largest share of the international operations in 2007) or other information technology companies. The telecommunications section of Skipti does however require greater investments in infrastructure and equipment.

12. Net sales and Other operating income are together Total revenues.

18.3 Balance sheet – Statutory accounts

The following table contains the audited consolidated balance sheets of Skipti as of 31 December 2007 and Síminn as of 31 December 2006, 2005 for comparison.

Consolidated Balance Sheet 2005 - 2007

ISK thousands	2007 31.12	2006 31.12	2005 31.12
Assets			
Non-current assets			
Property, plant and equipment	15,556,136	17,842,927	18,770,834
Intangible assets	66,765,472	61,155,750	58,533,100
Investments in associated companies	471,421	528,807	306,543
Investments in other companies	1,972,961	1,421,977	406,501
Other investment	279,597	150,000	0
Non-current assets	85,045,587	81,099,461	78,016,978
Current assets			
Inventories	1,133,581	841,939	765,117
Accounts receivable	5,313,812	5,755,229	3.887,794
Other receivables	879,034	156,729	120,645
Cash and cash equivalents	5,269,137	1,053,380	464,870
Current assets	12,595,564	7,807,277	5,238,426
Total assets	97,641,151	88,906,738	83,255,404
Equity			
Equity			
Share capital	7,365,146	7,000,000	30,921,636
Statutory reserve	1,383,522	0	403,209
Translation reserve	(366,063)	0	(14,280)
Retained earnings	24,005,049	21,113,259	1,470,712
Equity holders of the parent	32,387,654	28,113,259	32,781,277
Minority interest	368,900	1,333,614	19,775
Total equity	32,756,554	29,446,873	32,801,052
Non-current liabilities			
Borrowings	50,435,129	50,747,020	44,082,463
Deferred tax liabilities	304,731	156,224	519,417
	50,739,860	50,903,244	44,601,880
Current liabilities			
Bank loans	2,051,484	185,181	0
Accounts payable	4,674,284	2,246,766	2,237,988
Current maturities of borrowings	2,785,350	3,430,293	2,038,518
Other current liabilities	4,633,619	2,694,381	1,575,966
Current liabilities	14,144,737	8,556,621	5,852,472
Total liabilities	64,884,597	59,459,865	50,454,352
Total equity and liabilities	97,641,151	88,906,738	83,255,404

The figures for 2005 and 2006 are for Síminn, Skipti's predecessor

18.3.1 Assets

Total assets amounted to ISK 97,641 million as of 31 December 2007 compared to ISK 88,907 million at the end of 2006. This growth is in line with increased activities within the Group and the acquisitions of Aerofone, Sensa, BusinessPhone and Ventelo Denmark which took place in 2007, and the continuing demand for new investments in technology.

Skipti has provided collateral in a large proportion of the companies assets as is standard procedure when companies raise debt. The assets of the Company that are pledged to guarantee loans, amounted to ISK 32,509 million at the end of the year 2007.

18.3.1.1 Property, plant & equipment

The property plant and equipment of the Company is divided into the following three groups in the statutory accounts of the Company: Telecommunications equipment, land and buildings and equipment and automobile. The following table compares the book value of these groups in the annual audited accounts for Skipti in 2007 and Síminn in 2006 and 2005:

ISK thousands	2007 31.12	2006 31.12	2005 31.12
Telecommunications equipment	12,918,959	12,713,683	14,082,934
Land and buildings	1,659,666	4,153,265	3,789,560
Equipment and automobile	977,511	975,979	898,341
Total	**15,556,136**	**17,842,927**	**18,770,834**

Figures in 2005 and 2006 are for Síminn, Skipti's predecessor.

The telecommunications equipment amounted to ISK 12,919 million in 2007, compared to ISK 12,714 million in 2006. In 2007, Síminn's 3G mobile network was opened to the market in the metropolitan area and the Leifur Eiríksson international air terminal at the beginning of September. In December the system was opened to customers in Akureyri. The Issuer's telecommunications installations are continuously being reviewed by the Issuer to ensure that they are sufficient for development of its current operations, and where necessary, the Issuer will add to its portfolio of assets to continue developing its operations.

Skipti's land and buildings are buildings for offices, sales and support activities as well as building for operating telephone exchanges, broadcasting senders and relays. Skipti's land and buildings amounted to ISK 1,660 million in 2007 compared to ISK 4,153 million in 2006. Skipti in 2007 sold of all its shareholding (99.99%) in Fasteignafélagid Jörfi ehf. to Exista Properties ehf. Fasteignafélagid Jörfi was the entity within the Skipti group designated to own and operate the real estates of the telecommunication services. The purchase price was ISK 4,425 million. Skipti executed long-term leases for the premises of its business as well as transferring technical buildings to Míla ehf. Net assets disposed of amounted to ISK 2,716 million. The book value of land and buildings for 2005 was ISK 3,790 million and the increase in 2006 is due to a special revaluation of ISK 450 million in the year of 2006.

Equipment and automobile is the necessary equipment for employees to execute their daily work and has remained fairly stable for the period 2005-2007.

The management is not aware of any environmental issues that may affect the Issuer's utilisation of the tangible fixed assets.

The Company plans to allocate similar proportion of net sales as in previous years for new investments in property, plants and equipment. As IT operations become a more significant part of Skipti's net sales, investments as a proportion of net sales will decline as IT operations are less capital intense.

18.3.1.2 Intangible assets

Intangible assets for 2005 amounted to ISK 58,533 million mainly due goodwill arising from the merger of Skipti ehf., Íslenska sjónvarpsfélagid ehf. and Síminn hf. The goodwill is recognised as an asset and initially measured at cost, being the excess of the cost of business combination or the acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. The goodwill is subsequently subject to annual impairment tests and if the recoverable amount, according to the impairment test, is less than the carrying amount the excess is recognised immediately in the income statement.

For 2006, the intangible assets amounted to ISK 61,156 million, rising by ISK 2,622 million. The increase is mainly due to goodwill arising from the acquisition of Sirius IT A/S.

In 2007, the book value of intangible assets was ISK 66,765 million rising by ISK 5,610 million. The difference between 2006 and 2007 in intangible assets is due to the goodwill accounted for in relation to the acquisitions of Aerofone, Sensa and BusinessPhone and Ventelo Denmark which took place in 2007.

Skipti does not operate a specific research and development function, and is not dependent on any patents.

18.3.1.3 Investments

Investments are split into three components in the annual accounts of Skipti; investments in associated companies, investments in other companies and other investments. These items account for a small percentage of Skipti's balance sheet. During the period from 2005-2007 these three items have risen from ISK 713 million to ISK 2,724 million in 2007. The largest single investment was in Carrera Ltd. amounting to ISK 1,195 million. This investment has been sold and settlement is expected to be completed by the end of 2008.

18.3.1.4 Current assets

The current assets for the year 2005 amounted to ISK 5,238 million, with account receivables representing over 74.1% of the current assets. In 2006, the book value of current assets was ISK 7,807 million as account receivables rose with increasing revenues. For 2007, current assets amounted to ISK 12,596 million. The cash balance of Skipti rose substantially with the sale of Fasteignafélagid Jörfi ehf. The proceeds from the sale will be used to repay a portion of Skipti's borrowings.

18.3.2 Equity and changes in equity

In 2005 Skipti ehf. acquired Síminn and subsequently, Skipti ehf., Íslenska sjónvarpsfélagid hf. and Landssími Íslands were merged under Síminn hf. In Síminn's Annual General meeting on 15 March 2007 a demerger of Síminn was approved effective from 31 October 2006. The demerger was in two steps; firstly certain assets of Síminn were transferred to Skipti, secondly Síminn was split into three separate entities namely Síminn, Míla and Fasteignafélagid Jörfi. Skipti was incorporated with ISK 7,000 million in share capital. Former shareholders in Síminn received 95% of their holdings in the form of Skipti's shares and the remaining 5% in shares of Síminn, Míla and Fasteignafélagid Jörfi. The shareholders in Síminn, Míla and Jörfi had the option to sell their holdings in the three companies in exchange for shares in Skipti. As of 31 December 2007 Skipti held 99.99% of the share capital in Síminn and Míla. The increase from ISK 7,000 million in share capital at Skipti by the end of 2006 to ISK 7,368 million by end of 2007 is related to this share purchase in the three companies. The merger and demerger is described in more detail in the chapter 10 "Privatisation of Landssími Íslands hf."

Total equity amounted to ISK 32,756 million at 31 December 200,7 compared to ISK 29,447 at 31 December 2006. The equity ratio was 33.5% at the year-end 2007 compared to 33.1% at year-end 2006.

Subsequent to the admission to trading, Skipti will issue further shares with a combined value of ISK 1,189 million to a number of parties as consideration for acquisitions made by Skipti and its subsidiaries. As the number of shares to be issued is to be determined by the offer price, the exact numbers of shares to be issued cannot be determined until the announcement of the offer price and admission to trading. Further details of these transactions are set out in Chapter 16 "Major shareholders".

The following table contains changes in equity from 2005 to December 2007. The change in share capital that takes place at 1 January 2007 is due to the incorporation of Skipti.

Consolidated Statement for Changes in Equity 2005 - 2007

	ISK thousands	Share capital	Statutory reserve	Translation reserve	Revaluation reserves	Retained earnings	Equity holders of the parent	Minority interest	Total equity
Síminn hf.	Total equity 31.12.2004	7,036,445	2,345,482	(25,163)	0	7,596,383	16,953,147	31,832	16,984,979
	Effects of transition to IFRS				512,561	3,003	515,564		515,564
	Total equity 31.12.2004, adjusted	7,036,445	2,345,482	(25,163)	512,561	7,599,386	17,468,711	31,832	17,500,543
	Total dividend					(6,332,803)	(6,332,803)		(6,332,803)
	Profit for the year					4,019,749	4,019,749	12,340	4,032,089
	Change in minorty interest							(24,397)	(24,397)
	Translation reverve			(33,134)			(33,134)		(33,134)
	Realized gain on investments				(512,561)		(512,561)		(512,561)
	Merger	23,893,357	(2,345,482)	44,017		(3,412,411)	18,179,481		18,179,481
	Buyback of ordinary shares	(8,166)					(8,166)		(8,166)
	Provision for statutory reserve		403,209			(403,209)			0
	Total equity 31.12.2005	30,921,636	403,209	(14,280)	0	1,470,712	32,781,277	19,775	32,801,052
Síminn hf.	Total equity 31.12.2005	30,921,636	403,209	(14,280)		1,470,713	32,781,278	19,775	32,801,053
	Loss for the period					(3,581,065)	(3,581,065)	21,339	(3,559,726)
	Change in minority interest							65,168	65,168
	Translation reserve			145,050			145,050		145,050
	Change in own stock	108	(4,780)				(4,672)		(4,672)
	Total equity 31.12.2006	30,921,744	398,429	130,770	0	(2,110,352)	29,340,591	106,282	29,446,873
Skipti hf.	Total equity 1.1.2007	7,000,000				21,113,259	28,113,259	1,333,614	29,446,873
	Profit for the period					3,045,801	3,045,801	36,015	3,081,816
	Change in minority interest							(1,000,729)	(1,000,729)
	Translation reserve			(366,063)			(366,063)		(366,063)
	Recognition of share based payments		65,200				65,200		65,200
	New capital issued	368,421	1,164,849				1,533,270		1,533,270
	Provision fro statutory reserves		154,011			(154,011)			
	Buyback of ordinary shares	(3,275)	(538)				(3,813)		(3,813)
	Total equity 31.12.2007	7,365,146	1,383,522	(366,063)	0	24,005,049	32,387,654	368,900	32,756,554

18.3.3 Liabilities

Skipti's total liabilities for 2005 amounted to ISK 50,454 million, of which non-current borrowings was ISK 44,082 million, deferred tax liabilities ISK 519 million and current liabilities amounting to ISK 5,852 million.

In 2006, book value of total liabilities was ISK 59,460 million. The main reason for this increase was the depreciation of the Icelandic króna because a substantial proportion of Skipti's borrowings is in foreign currencies.

Liabilities were ISK 64,885 million at 31 December 2007 compared to ISK 59,460 million at the end of 2006.

Skipti made ISK 3,263 million in instalments on non-current liabilities in 2007. New borrowings were ISK 3,085 million which were mainly related to the acquisition of Ventelo.

Non-current borrowings were ISK 50,435 million in 31 December 2007 compared to ISK 50,747 million in 31 December 2006. The increase in bank loans in 2007 is related to acquisitions; however the sale of Fasteignafélagid Jörfi resulted in an increase in cash holding of ISK 4,216 million.

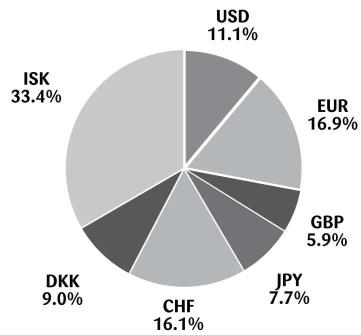
18.3.3.1 Skipti's capital resources

Skipti's operations, assets, debt and equity are exposed to a variety of financial risks. The Company's financial risks, including market risks such as currency and interest rate risks, are managed by its Treasury function on the basis of written principles. These principles entail that the hedging activity varies upon the economical outlook and interest rate difference at any given time. The company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. A corporate finance committee led by the CEO of the Company meets monthly to review the borrowing portfolio and currency risk.

Skipti's borrowings consists of listed bonds issued in ISK at a fixed rate, foreign currency loans with floating interest rates and other borrowings in ISK with floating interest rates. The Company uses interest rates swaps to fix a small part of the floating rate risk in foreign currency borrowings until year-end 2009.

Skipti's borrowings are based on a broad currency portfolio where 33.4% of the debts are in ISK, 89% of the ISK portfolio is with fixed interest rate linked to the Icelandic consumer price index. Skipti has taken advantage of the interest rate difference by borrowing in various currencies with lower interest rates compared to the ISK.

Currency Split
of Skipti´s Borrowings

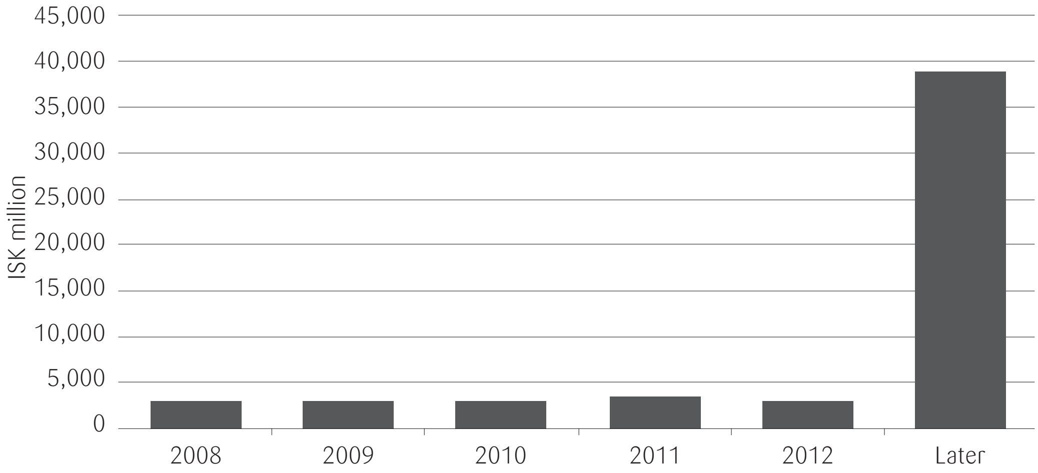


In order to minimise currency risk, Skipti has entered into foreign exchange currency forward agreements. Currently, more than 70% of the borrowings in foreign currencies, for domestic purposes, have been hedged by short-term foreign exchange currency forward agreements. The following table shows the Company's exposure to foreign currency as at 31 December 2007.

	Foreign Currency Risk Exposure		
ISK thousands	Assets	Liabilities	Net position
EUR	10,063,191	9,002,446	1,060,745
GBP	2,450,577	3,113,596	(663,019)
JPY	0	4,075,903	(4,075,903)
CHF	3,759,857	8,542,301	(4,782,444)
USD	7,692,608	5,894,133	1,798,475
CAD	0	1,508,874	(1,508,874)
DKK	800,000	0	800,000
SEK	737,000	0	737,000

Skipti's refinancing needs until 2012 are low. The company has moderate repayments of facilities in the years 2007-2012 and the first material refinancing need is post 2012.

Maturity Profile of borrowins



The Company has considerable investments in long-term assets and has therefore structured its borrowings with a high proportion of long-term debt with moderate repayments as the maturity profile displays. Skipti has facilities and undrawn credit lines amounting to ISK 9.8 billion as at year-end 2007.

There are covenants in three loan agreements signed by Skipti and its subsidiaries. These loan agreements represent around 60% of Skipti's borrowings and mature in the years 2012 and 2013 and the covenants are valid until maturity. The loan agreements include covenants that are related to the cash flow of the company. The most relevant are senior debt to EBITDA, EBITDA to senior interest payable, cash flow available for debt service to total service payments on borrowings, and capital expenditure as a percentage of revenues. The Company is currently operating within the limits of all relevant covenants.

Loan agreements have restrictions on payment of dividends to shareholders, which can be waived only with the acceptance from majority of the lenders. Furthermore there are restrictions on any large sale of assets to third parties where the proceeds from any sale are to be used for repayment of debt, unless otherwise agreed by the majority of the lenders. The management of Skipti does not foresee any breach of covenants in the near future. A subsidiary of Skipti has a loan agreement with covenants measuring net debt to EBITDA and equity ratio. The management of the subsidiary does not foresee any material breach of covenants in the near future.

Not fulfilling the covenants could mean the accelerated repayment of loans, cross-defaults, and/or technical default requiring re-negotiation with creditors. Such an event would almost always be preceded by a significant adverse development in the Group's financial performance. However, such circumstances would normally be met with a temporary waiver from creditors or, should a waiver not be obtained, with a share capital increase or an asset sale in order to repay accelerated indebtedness.

Skipti has other commitments as it has guaranteed loans for Farice hf. that are nominated in foreign currencies and amounted to ISK 939 million at the year-end. In relation to the Company's lease of a submarine telecommunications cable, it is committed to paying ISK 107 million annually until 2012. Due to the sale of Fasteignafélagid Jörfi ehf., the Company's commitment on account of housing leases amounts to ISK 208 million annually until 2018.

Skipti is exposed to credit risk which refers to the risk that counterparties will default on their contractual obligations resulting in financial loss to the Company. The following table shows the maximum credit risk Skipti is exposed to without taking into account any collateral obtained.

ISK thousands	Maximum credit risk 31.12.2007
Accounts receivables	5,313,812
Liquid funds	5,269,137
Other financial assets	1,158,631
Financial guarantees	939,930
	12,681,510

Accounts receivables consist of a large portfolio of customers spread across diverse industries and geographical areas and the Company is not exposed to any significant credit risk exposure to any single counterparty. The credit risk on liquid funds and derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

18.4 Cash flow statements - statutory accounts

The following table contains the audited consolidated cash flow statement for Skipti as of 31 December 2007 and Síminn as of 31 December 2006 and 2005 for comparison.

18.4.1 Annual cash flow statements for 2005-2007

The Company generated ISK 9,014 million in cash from operations in 2007, which is a 4.2% increase from 2006 when the cash generated is ISK 8,654 million. Cash generated by operations remains strong at the Company.

The increase in leverage following the privatisation was considerable since non-current liabilities increased from ISK 4,361 million in 2004 to ISK 44,082 million in 2005. The Company has coped well with the increased leverage since 2005 and has not made any changes to its capital expenditure strategy. Skipti was for instance the first company to launch a 3G network in Iceland and is at the same time launching a new network based on CDMA 450 technology that will replace the old NMT network.

Skipti's capital expenditures (investment in property, plant and equipment) in 2007 amounted to ISK 3,490 million compared to ISK 2,117 million for 2006 and 4,318 million for 2005. The increase between 2007 and 2006 can be explained by the investment relating to the launch of a 3G network and tightening of the mobile network covering the national road no. 1 and roads in mountain areas, following a tender organised by the Telecommunications Fund. In 2006 the capital expenditures were reduced significantly from 2005. The focus for 2006 was to expand the operations into a growing IT sector as can be seen from the increase in investments in other companies. In 2005 however, the company invested in expanding and improving its networks to better support new solutions on the market and need for increased capacity. The capital expenditure increased by ISK 1,548 million between the years 2004 and 2005. The capital expenditure in 2005 was thus considerable but at the same time, the Company disposed of non-core investments, e.g. Straumur Fjárfestingarbanki.

Since the privatisation of Skipti, new owners cut back dividends and re-invested the cash generated by operations in strategic investments.

Consolidated Cash Flow Statement 2005 - 2007

ISK thousands	2007 1.1 - 31.12	2006 1.1 - 31.12	2005 1.1 - 31.12
Cash flow from operating activities			
Operating profit	5,291,067	4,605,515	3,606,233
Operational items not affecting cash flow:			
Depreciation and amortization	4,202,025	3,837,204	3,847,409
(Gain) loss on sale of fixed assets	(2,337)	(17,466)	8,525
Changes in current assets and liabilities	(476,278)	229,027	56,822
Cash generated by operation	9,014,477	8,654,280	7,518,989
Interest income received during the year	426,591	238,663	577,797
Payments of taxes during the year	0	(197,485)	(429,244)
Interest expenses paid during the year	(2,550,553)	(1,989,148)	(1,477,306)
Net cash from operating activities	6,890,515	6,706,310	6,190,236
Investing activities			
Investment in property, plant and equipment	(3,490,094)	(2,117,310)	(4,317,848)
Investment in intangible assets	(358,567)	(453,304)	(482,744)
Proceeds from sale of property, plant and equipment	42,510	56,062	46,525
Changes in other investments	41,909	23,291	697,302
Changes in investments in other companies	(474,762)	(2,692,121)	1,309,374
Investing activities	(4,239,004)	(5,183,382)	(2,747,391)
Financing activities			
Dividend paid	0	(630,907)	(5.701,894)
New loans raised	3,085,347	1,892,176	11,441,118
Repayments of borrowings	(3,262,920)	(2,444,183)	(10,526,863)
Bank loans, increase (decrease)	1,791,584	324,033	(940,139)
Repurchase of own shares	(3,108)	(232,834)	(75,785)
Financing activities	1,610,903	(1,091,715)	(5,803,563)
Increase (decrease) in cash and cash equivalents	4,262,414	431,213	(2,360,718)
Effects of exchange rate changes on the balance of cash	(46,657)	157,297	0
Cash and cash equivalents at the beginning of year	1,053,380	464,870	2,825,588
Cash and cash equivalents at the end of the year	5,269,137	1,053,380	464,870

Figures in 2005 and 2006 are for Síminn, Skipti's predecessor.

18.5 Dividends and dividends policy

For the period covered by the historical financial information, the Company has paid dividends for each year as can be seen from the following table.

ISK million	2007 1.1 - 31.12	2006 1.1 - 31.12	2005 1.1 - 31.12
Dividend paid	0	631*	5,702
Share capital / No. of outstanding shares	7,365	7,000	30,922
- dividend per share	0.0	0.09	0.184
Profit attributable to parent	3,046	(3,581)	4,020
- dividend as % of profit	n.m.	n.m.	141.8%

Figures in 2005 and 2006 are for Síminn, Skipti's predecessor.
* Related to the dividend of 2005 due to withholding tax.

No dividend was paid out for the year 2007. The dividend paid has declined as a percentage of share capital and this is in line with the Company's policy to expand and grow its operations by investing in domestic and international telecommunications and IT service providers. The Company's ability and desire to pay dividends in the future will depend on Skipti's financial condition, results of operations, capital requirements and other factors that the Company's board of directors may deem relevant, and any proposal to pay dividends will be subject to the approval of shareholders. Skipti is also subject to certain restrictions pursuant to previously described covenants in loan facilities that limit certain actions, including dividend payments, without the approval of the lender. These covenants are related to three loan agreements which represent 60% of Skipti's borrowings. The loans mature in the years 2012 and 2013 and the covenants restricting dividend payments are valid until maturity.

In addition, Icelandic law limits the Company's ability to declare and pay dividends from funds legally available for that purpose. According to Act No. 2/1995 on Public Limited Liability Companies Articles 99 to 101 it is only permissible to allocate as dividend profit in accordance with approved annual accounts for the immediate past fiscal year, profit brought forward from previous years and free funds after deducting loss which has not been met and the moneys which according to laws or the Company's Articles of Association shall be contributed to a reserve fund or for other use.

Skipti's shareholders' meetings will decide upon the distribution of dividend after Skipti's board of directors has submitted proposals to that effect. The meeting may not decide to distribute more dividend than is proposed or approved by Skipti's board of directors. However, shareholders holding a total of at least a tenth of the share capital may require an Annual General Meeting to decide upon the distribution of a sum as dividend amounting to a minimum of a quarter of the remainder of annual profit when the loss of previous years has been met and that which shall be contributed to a reserve fund in accordance with law or the Company's Articles of Association or which cannot be distributed as dividend for other reasons has been deducted. It is, however, not permissible to require distribution of more than the equivalent of two per cent of the Company's capital and reserves.

Currently, no dividend policy has been approved for Skipti.

18.5.1 Legal and arbitration proceedings

Set out below are the ongoing governmental, legal or arbitration proceedings of Skipti and its subsidiaries that may have significant effect on the Issuer's financial position or profitability. The management and board of directors of Skipti believe that the following discussion describes the governmental, legal or arbitration proceedings in the 12 months preceding the date of this Prospectus which are most likely to materially affect the Group's position or profitability.

Geolink vs. Síminn, On-Waves S.a.r.l. and On-Waves two directors

In this ongoing arbitration proceeding before the International Chamber of Commerce (ICC), the French company Geolink claims on a joint and several basis damages in the amount of EUR 19.1 million due to alleged breach of contract. Síminn maintains that the said contract, concluded between Síminn and Geolink, was terminated lawfully and in accordance with its provisions.

The ICC tribunal has already ruled that On-Waves and the two directors are not parties to the arbitration proceedings. Geolink has previously lost an action against Síminn, On-Waves and the two employees in the civil courts of Paris whereby Geolink demanded that the defendants should pay an initial fine of approximately EUR 6,310,000 to Geolink and further required an injunction in relation to unfair hiring of two employees of Geolink. Furthermore, Geolink has lost an action for interim injunction before the District Court of Reykjavík.

Nova's complaint to the Competition Authority

The telephone company Nova has complained to the Competition Authority about Síminn's pricing of its mobile telephone services sold to Síminn's customers, by charging Síminn's customers a higher price when calling Nova's phone numbers, than its customers when calling other competitors of Síminn. Nova claims that Síminn has abused its dominant market position with the aforementioned pricing "tactics". Nova demands the following from the Competition Authority: 1. that the Competition Authority decides that Síminn has abused its market dominance and finds Síminn to be in breach of Article 11 of the Competition Act; 2. that the Competition Authority reacts to Síminn's behaviour in accordance with Paragraphs 1 and 2 of Article 16 of the Competition Act; 3. that the Competition Authority fines Síminn the maximum amount authorised by law which can be up to 10% of the turnover of the last financial year; 4. that the Competition Authority decides, in the form of an interim decision, that Síminn is unauthorised to charge a different price to its customers when calling numbers Nova's phone numbers than when its customers call numbers of other competitors of Síminn.

Síminn has submitted its objections to Nova's claims, and bases its case mainly on the fact that Nova's termination rates into its own mobile network is 63-75% higher than the termination rate into Síminn's network and also substantially higher than into Vodafone's network. Thus, Síminn has to apply different retail tariffs in order not to discriminate between different competitors in relation to retail margins applied.

ADSL quantity discount to businesses

The Competition Authority contacted Síminn in August 2007 and requested information concerning Síminn's ADSL quantity discounts. The Competition Authority's enquiry was at first aimed at Síminn's quantity discounts for ADSL-service for the fact that Síminn sells ADSL-service to its customers in the corporate market with a higher discount than it sells ADSL-service to other telecommunications companies on the wholesale-market. The Competition Authority's investigation is intended to find out if Síminn has abused its dominance in the market for high speed internet connections, by offering dissimilar discounts to its buyers in breach of Article 11 of the Competition Act. The Competition Authority sent a letter in September 2007, claiming that the subject of its investigation had been broadened. The consequences are not clear as no further information has been required by the Competition Authority. Therefore, the object of the Competition Authority's investigation now is also examining if Síminn has abused its dominance in the aforementioned market by means of exclusive agreements, tie-ins, specific measures and predatory pricing methods.

Proceeding before the PTA

At any given time, there are various proceedings affecting Siminn and Míla before the PTA, the subject of which are mainly market analyses that can result in adverse decisions on wholesale tariffs and mandatory access to network or services.

18.5.2 Significant change

There has been no significant change in the financial or trading position of the Group since the end of the last audited financial period.

19. FORECAST AND FUTURE VISION

19.1 Profit forecast for 2008

A forecast for total consolidated revenues and EBITDA has been made for 2008. Total revenues are expected to be ISK 36,000-38,000 million, which is a 8-14% increase from 2007, and EBITDA is expected to be ISK 10,300-10,800 million, which represents a 8.5-14% increase from 2007.

Profit forecast

ISK million	2008E
Total revenues	36,000-38,000
EBITDA	10,300-10,800

The projective financial information for the 2008 is based on assumptions of an organic growth of approximately 6-7%. The estimates for 2008 have been prepared in accordance with Skipti's normal budgeting procedures where focus is on the profit and loss account, balance sheet and cash flow performance.

19.1.1 Assumptions

The projection for 2008 is based on the assumption of a successful implementation of Skipti's strategy. The success of this strategy is subject to uncertainties and contingencies beyond Skipti's control and no assurance can be given that the strategy will be effective or that the anticipated benefits from the strategy will be realised in the period for which the forecasts is prepared, or at all. Accordingly, no assurance can be that these results will be realised. The projective financial information may differ materially from our actual results. Prospective investors are cautioned not to place undue reliance on this information and are advised to study the chapter on "Risk factors" in this Share Registration Document and the Share Securities Note. In particular, the following factors, which are beyond Skipti's control, have been assumed:

- Competitors' actions on the market can affect the profit forecast for 2008. New licenses in the GSM network and a new competitor offering 3G services may affect the forecast for Síminn and result in less revenues or more expenditure in marketing and sales. Higher than expected take up of VoIP might negatively affect revenues for the fixed line service and the wider optical network owned by OR (Reykjavík Energy) might have adverse affect on revenues for Síminn's ADSL and broadband services as well as fixed line services and TV broadcasting.

- Some of Skipti's companies, such as Síminn, Míla and Já, are subject to extensive regulatory requirements by the PTA (The Post and Telecom Administration in Iceland). The PTA can rule on tariffs and require Skipti to offer its competitors access to its network. The PTA can set requirements that reduce flexibility in setting tariffs or improve the competitors' relative competitive position.

- Skipti has a substantial part of its debt in foreign currencies but the largest part of its revenues is in ISK. Fluctuations in exchange rates may therefore adversely affect Skipti's financial costs and net income.

- The growth of the Group originates in part through development of existing businesses and in part through acquisitions. This growth will entail risk as is common in acquisitions and can involve the price paid, the competency of new management and integration and alignment of new subsidiaries into the Group. New acquisitions can also cause disruptions in the current business of the new company as management's focus is consequently reduced. Some acquisitions may involve operations where Skipti has limited or no direct prior experience.

19.2 Statement by Skipti's management and board of directors

We have presented our high level forecast for 2008 in the "Profit forecast for 2008". The information was prepared applying the accounting policies of Skipti. The prospective financial information was prepared for use herein. Skipti's management and board of directors believe that the material assumptions on which the prospective financial information is based are described herein, and that the assumptions have been consistently applied in the preparation of the information.

The projective financial information is based on a number of assumptions, some of which are within the Company's control, whilst others are beyond its control. The methods used in the preparation of the prospective financial information and the underlying assumptions on which the information is based are stated in "Profit forecast for 2008". This projective financial information represents Skipti's management's and board of directors' best estimate of Skipti's revenue and EBITDA for 2008. The projective financial information contains forward-looking statements with respect to Skipti's financial position which involves significant uncertainties. Skipti's actual results may differ materially from those represented in these statements. In addition to those risks discussed in "Profit forecast for 2008" and "Notice to investor" other potential risks and uncertainties include, without limitation, those set forth under "Risk Factors" above.

Reykjavík, 4 March 2008

On behalf of the Issuer

President and CEO

Brynjólfur Bjarnason

Board of Directors

Lýður Guðmundsson

19.3 Auditors' statement

Auditors' report on profit forecast for 2008

As agreed upon, we have examined the profit forecast for 2008 set out in the section "Profit forecast for 2008" of the Prospectus for Skipti dated 4 March 2008. The profit forecast is prepared on the basis of the material assumptions in the section "Assumptions" and the accounting policies of Skipti hf. described in the notes to Skipti's Consolidated Financial Statements 2007.The accounting policies applied are in accordance with the recognition and measurement principles of IFRS as adopted by EU.

The executive management and the board of directors are responsible for the profit forecasts including the assumptions on which it is based. Our responsibility is, based on our examination, to provide a conclusion on the profit forecasts.

Examination performed

We conducted our examination in accordance with the international standard applicable to the examination of profit forecasts. This standard requires that we plan and perform our examinations in order to obtain limited assurance that the applied assumptions are well founded and do not contain material misstatements and reasonable assurance that the profit forecast has been prepared on the basis of the assumptions stated consistent with the Company's accounting policies.

Our examinations comprise a review of the profit forecasts for 2008 with a view to assess whether the assumptions set forth by the management are documented, well-founded and complete. In addition, we have tested whether the profit forecast for 2008 has been prepared on the basis of the executive management's and the board of directors assumptions and has been presented in accordance with Skipti's hf.'s' accounting policies. Furthermore, we have tested the relationship in terms of figures in the profit forecast.

We believe that our examination provides a reasonable basis for our conclusion.

Conclusion

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the profit forecast for 2008. Further, in our opinion the profit forecast for 2008 has been properly prepared on the basis of the assumptions consistent with the accounting policies of Skipti hf.

Emphasis of matter

Actual results are likely to be different from the profit forecast since anticipated events frequently do not occur as expected and the variation may be material.

Reykjavík, 4 March 2008

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Hilmar A. Alfredsson
State Authorised Public Accountant

20. ADDITIONAL INFORMATION

20.1 Share capital

The share capital of Skipti is ISK 7,368,421,053. Shares are divided into the multiple of ISK 1 that each shareholder of the Company holds at any time. The share capital has been issued in connection with the demerger described in chapter 10 "Privatisation of Landssími Íslands hf.", and has not been paid for with cash.

20.1.1 Own shares

Skipti holds 3,274,664 own shares (which equals to 0.0444% of total issued shares). By law the Company's own shares do not carry voting rights.

20.1.2 Development of the share capital

Skipti was incorporated on 1 January 2007 with a share capital of 7,000,000,000. New shares of 368,421,053 have been issued in 2007 as described in more detail in chapter 10 "Privatisation of Landssími Íslands hf."

20.2 Memorandum and Articles of Association

20.2.1 Object of the Company

As described in Article 3 in the Articles of Association, the object of the company is to invest funds tied by its shareholders in the Company's businesses activities, buying, selling and holding securities, especially in subsidiaries engaged in telecommunications and information technology, service to subsidiaries, buying, selling and administering real estate and liquid assets, together with credit activities in connection with the operation and other related operations.

20.2.2 Share capital of the Company

All shares are issued in the name of the holder. All the shares carry the same rights. Shares are divided into the multiple of ISK 1.

The share capital may only be increased by a meeting of the shareholders of the Company, and must be approved both by 2/3 of the votes cast and shareholders controlling at least 2/3 of the shares in the Company represented at the meeting. The board of directors has been authorised, at the Annual General Meeting held on 27 February 2008, to increase the share capital by up to ISK 1,500,000,000 further shares. This authorisation will last for 18 months and the remainder of the previous authorisation to increase the share capital has expired. Pursuant to a number of transactions entered into by the Company and its subsidiaries, further details of which are set out in chapter 16 "Major shareholders", the Company has contractual obligations to deliver shares with a combined market value of ISK 1,189 million to counterparties of which ISK 840 million will be by issuing new shares and the remainder either by the issuance of new share or by delivering own shares. This will take place following the proposed admission to trading.

According to the Issuer's Articles of Association, the board of directors of the Issuer is authorised to purchase own shares in the Issuer to the extent permitted by law and in compliance with the other provisions of the Issuer's Articles of Association. The price paid for the shares shall be no lower than the nominal value of the shares and no higher than 20% above the market price of the shares at any time. The authorisation, approved on 27 February 2008 by the Annual General Meeting, is valid for 18 months from its approval.

The board of directors of Skipti has requested that SKIPTI be the symbol for the Issuer on OMX ICE and the ticker symbol for the Issuer's shares in the OMX ICE trading system.

20.2.2.1 Rights

At shareholders' meetings, each share carries one vote. No voting rights are attached to shares owned by the Company in itself. Shareholders have pre-emptive rights to increased share capital in proportion to their holdings in the Company and within the time limits specified in the decision to increase the Company share capital. To the extent that existing shareholders do not exercise their pre-emptive rights, other shareholders shall be granted increased subscription rights.

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. The shareholders have already waived their pre-emption rights in respect of the authorised increase in share capital by up to ISK 1,500,000,000 referred to above.

20.2.2.2 Dividend policy

The Issuer's board of directors has not set a dividend policy for Skipti.

20.2.2.3 Right to dividends

A resolution on the distribution of dividends shall be made at an annual general meeting which shall be held before the end of May each year. According to Article 7 of the Issuer's Articles of Association, dividends shall be paid to those that are registered as owners in the Register of Shares.

According to Article 7 of the Issuer's Articles of Association, the Issuer assumes no responsibility for payments or notices being lost owing to negligence in notifying the Issuer of changes of ownership or address. Therefore each shareholder shall inform the Register of Shares of his/her address and in the event that shareholders neglect to provide information of such address, they shall neither have any claim towards the Issuer to receive any notice nor payments which have been misplaced. However, 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.

20.2.2.4 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 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 an effect of delaying, deferring or preventing a change in control of the Company.

Once a shareholder has paid in his share in full to the Issuer, he shall be issued an electronic certificate in the ISD and a registered title which confers on him the full rights provided for in the Articles of Association of the Issuer. Transfer of shares becomes effective at registration with the ISD. The electronic registration of securities is governed by Act no. 131/1997 on electronic registration of securities and Regulation no. 397/2000 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 voided.

A printout from the ISD on the ownership of shares in Skipti is considered a valid registration of the shares. The Issuer shall consider the share register as full proof of ownership to shares and attached rights. Dividends as well as all announcements shall at any given time be sent to the party registered in the Issuer's share register as owner of the shares in question. The Issuer is in no way liable if payments or announcements do not reach their recipients because a change of address has not been notified.

Rights to electronic shares must be registered at the ISD if they are to enjoy legal protection against legal executions and disposal by means of an agreement. Only account operators which have concluded a valid agreement of association with the ISD are authorised to act as intermediaries in registration of title in the 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 the 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 the ISD.

20.2.2.5 Disclosure requirements

As a listed company on the OMX ICE Main Market, the Company will be subject to the disclosure requirements set out in Act No. 108/2007 on Securities Transactions, government regulations and OMX ICE rules. Act 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 listed 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 90%. When a party acquires a substantial holding, or increases a holding to exceed or reduces a holding to fall below this limit, the party must immediately give notice to both the relevant registered securities market and the Company.

20.2.2.6 Mandatory takeover bid rules

In chapter X of the Icelandic Act on Securities Transactions no. 108/2007 it is stated that if a party has directly or indirectly become dominant in a listed company it shall make other shareholders a takeover bid. A party is considered dominant if it 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; 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 4 weeks from the time when this position of dominance was reached. 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 offered price shall, however, at least be equal or greater than the last price the day before the offering party became dominant or at the date of the announcement.

Exista hf. currently owns 43.6% of the share capital in Skipti hf, exceeding the mandatory takeover bid threshold by 3.6 percentage points. According to the FME's published interpretation of Article 100 of the Icelandic Act on Securities Transactions no. 108/2007, the obligation to issue a takeover bid does not arise due to a single shareholder or a shareholder acting in concert with others having legal control over a company at the time of admission to trading on a regulated market. This exemption is subject to the shareholding having been disclosed at the time of admission to trading.

20.2.2.7 Squeeze out and sell out rules

In chapter X of the Icelandic Act on Securities Transactions no. 108/2007 it is stated that if the offering party has acquired more than 9/10 of the share capital of the company 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. 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.

20.2.2.8 Tax issues

The shares of Skipti 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 which the Issuer shall pay within a year of the issue of the shares. Stamp duty has been paid on all shares that have already been issued.

The Issuer is obliged to retain PAYE taxes on dividend payments, according to art. 3, para. 2 and art. 5. para 4. of Act no. 94/1996 on Capital Income Tax. 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 Skipti 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 Skipti fulfil the conditions of item 1 of section B of Article 30 of Act. no. 90/2003, with subsequent amendments, on Income Tax and Net Wealth Tax. It discusses the deduction of increased investments in shares before the end of 2002 from the income tax base.

20.2.2.9 Nominee accounts

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

In Article 31 of Act 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. 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 Article 31 a shareholder does not have voting rights at a shareholders' meeting unless his name is registered in the share register. 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. Customers' ownership in nominee accounts shall be included when assessing the need for disclosing such transactions.

In Article 12, Act no. 108/2007 it is stated that a financial undertaking, which is authorised to hold financial instruments owned by its customers, may 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 11 also 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.

20.2.2.10 Dissolution of the Company

Pursuant to the Issuer's Articles of Association, Article 27, proposals on the division or dissolution of the Company will be subject to the same provisions as amendments to the Articles of Association. Any decision on the dissolution of the Company shall be made by shareholders controlling at least two thirds of the Company's shares. A shareholders' meeting, which has made a lawful decision on the division or dissolution of the Company, shall also decide on how the assets of the Company should be disbursed and debts paid. The meeting shall also decide if the Company is to be divided by a public authority or a Winding-up Committee is elected in accordance with provisions in the Public Limited Companies Act. If a shareholders' meeting has decided on dissolution of the Company, it shall without delay be announced to the Register of Limited Companies. Otherwise, dissolution or a division of the Company, or a merger to another company shall be governed by the current Act on Public Limited Companies no. 2/1995 as the provisions are set out in Chapter XIII and Chapter XIV.

20.2.2.11 Action necessary to change the rights of shareholders

Each shareholder is under obligation, without specific undertaking, to abide by the Articles of Association of Skipti in their current form or as legitimately amended at any time. Shareholders' liability for the Company's affairs is limited to their share contribution. According to Article 26 of the Articles of Association, the Articles may be amended at a lawfully convened shareholders' meeting.

The notice of a shareholders' meeting shall specify the business to be addressed at the meeting. If the agenda includes a motion to amend the Articles of the Company, the main substance of the motion shall be included in the notice of the meeting. A decision to amend the Articles of Association at a lawfully convened Annual General Meeting or extraordinary shareholders' meeting must be supported by 2/3 of the cast votes and the consent of shareholders controlling at least 2/3 of the shares in the Company represented at the meeting, subject to provisions that require the consent of all shareholders as stipulated in Section 18.3 of the Articles of Association. This is in accordance with Article 93 of the Companies Act. According to Article 94 of the Companies Act more stringent rules apply in some cases.

20.2.3 Annual General Meetings

The Annual General Meeting shall be called with at least one week's notice and at most four weeks' notice. Each shareholder shall be notified of Annual General Meetings by registered letter, telegram, or other verifiable manner, including an advertisement in a daily newspaper. Extraordinary meetings should be called in the same manner and with the same notice.

All shareholders are authorised to attend shareholders' meetings. The board of directors is authorised to resolve that shareholders should be permitted to participate in the business of shareholders' meeting by electronic means without being present at the venue of the meeting. A shareholder may appoint a proxy to attend a shareholders' meeting on his/her behalf and to exercise his/her right to vote. The proxy shall submit a written, witnessed and dated letter of proxy. A shareholder may also attend a meeting accompanied by an advisor.

20.2.4 Board of directors

The board of directors may be composed of up to seven members, elected at a shareholders' meeting for a term of one year. The Company currently has six directors, whose details and interests are set out in chapter 14 "Administrative, Management, Supervisory Bodies, and Senior Management" above.

Elections of directors are carried out by ballot where the number of nominations exceeds the number of directors to be elected. Unless a shareholder or shareholders representing at least 10% of the issued shares in the Company requests proportional or multiple voting, elections of directors are carried out as a majority vote. Any requests for proportional or multiple voting must be made at least five days prior to the shareholders' meeting, and in the event that both proportional voting and multiple voting are validly requested, the method used will be multiple voting.

The chairman of the board of directors and the managing director of the Company are appointed by the directors.

The board of directors also operates both an audit committee and a remuneration committee, details of which are set out in chapter 14 "Administrative, Management, Supervisory Bodies, and Senior Management" above.

ARTICLES OF ASSOCIATION

ARTICLES OF ASSOCIATION OF SKIPTI HF.

1. Company Name

1.1 The Company is a limited liability company. The name of the Company is Skipti hf.

2. Company Domicile

2.1 The Company is domiciled at Ármúli 25, 108 Reykjavík.

3. Object of the Company

3.1 The object of the Company is to invest funds tied by its shareholders in the Company's business activities, buying, selling and holding securities, especially in subsidiaries engaged in telecommunications and information technology, service to subsidiaries, buying, selling and administering real estate and liquid assets, together with credit activities in connection with the operation and other related operations.

3.2 The Company may participate in the establishment of other companies and own shares in them, as well as establish companies in its sole ownership to undertake certain aspects of its operation.

4. Share Capital of the Company

4.1 The share capital of the Company amounts to ISK 7.368.421.053 – seven billion three hundred and sixty eight million four hundred and twenty one thousand and fifty three Icelandic krónur.

4.2 Shares are divided into the multiple of ISK 1 that each shareholder of the Company holds at any time.

4.3 Only 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. A decision is valid only if it has the support of at least 2/3 of the cast votes and the support of shareholders controlling at least 2/3 of the share capital represented at the meeting. Shareholders have pre-emptive rights to increased share capital in proportion to their holdings in the Company and within the time limits specified in the decision to increase the Company share capital. To the extent that existing shareholders do not exercise their pre-emptive rights, other shareholders shall be granted increased subscription rights. A shareholders' meeting may, with 2/3 of all votes cast and with the consent of shareholders controlling at least 2/3 of all shares represented at the meeting, decide to waive pre-emptive rights to increased share capital, provided that there is no discrimination among shareholders.

4.4 In the event that a shareholder has not paid in the required share capital by the due date, penalty interest shall be paid on the amount due from that date to the date of payment, in addition to costs incurred for the collection of the payment. Other default recourses provided for by law at any time may also be used, including cancellation of the subscription.

4.5 All shares shall be issued in the name of the holder. All the shares carry the same rights.

4.6 The Board of Directors of the Company is authorised to increase the share capital of the Company by up to ISK 1,500,000,000 in nominal value through the issue of new shares. This authorisation may be exercised, inter alia, for the acquisition of, or trading in, shares in foreign or, as applicable, domestic companies. Shareholders waive their pre-emptive rights to these shares. The remainder of the authorisation granted at a shareholders' meeting on 15 March 2007 shall lapse. The authorisation shall remain in effect for 18 months from its approval at the Annual General Meeting. The Board of Directors to be entrusted with the further details of the increase.

4.7 The Board of Directors is authorised to purchase own shares in the Company to the extent permitted by law and in compliance with Section 9.1 of these Articles of Association. The price paid for the shares shall be no lower than the nominal value of the shares and no higher than 20% over the market price of the shares at any time. The authorisation is valid for 18 months from its approval at a shareholders' meeting.

5. Authorisation for the Electronic Issue of Shares

5.1 The Board of Directors of the Company is authorised to issue shares in electronic form in a central securities depository, in accordance with the Act on Electronic Registration of Title to Securities, as applicable. The electronically registered shares, electronic securities, shall replace previously issued share certificates.

6. Share Register

6.1 The Board of Directors shall maintain a register of shares, pursuant to statutory law.

6.2 A transcript from the Icelandic Securities Depository regarding ownership rights in the Company constitutes sufficient basis for the share register and provides full entitlement to the rights laid down in the Company Articles.

6.3 The share register shall be preserved in the office of the Company, where all shareholders shall have access to it and permission to inspect its contents.

7. Change of Ownership, Mortgaging etc.

7.1 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.

7.2 For the Company, the share register shall be regarded as full proof of title 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 share in question in the share register of the Company. The Company assumes no responsibility for payments or notices being lost owing to neglect to notify changes of title or address.

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

7.4 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 title to the share.

8. Obligations of the Shareholder. Privileges

8.1 Each shareholder is under obligation, without specific undertaking, to abide by the Articles of Association of the Company in their current form or as lawfully amended at any time.

8.2 Shareholders are not liable for the commitments of the Company beyond their share in the Company unless they assume such commitments under a separate legal instrument. No amendments may be made to the provisions of this Article.

8.3 No privileges are attached to any shares in the Company.

9. Own Shares Held by the Company

9.1 The Company may acquire its own shares to the extent permitted by statutory law. Voting rights of shares owned by the Company in itself may not be exercised. The Company may only acquire shares pursuant to authorisation by a Annual General Meeting to the Board of Directors of the Company, and such authorisation shall not be granted for a longer time than 18 months each time.

10. Redemption Loans Secured by Shares

10.1 Shareholders are not required to submit to redemption of their shares except as provided by law.

10.2 The Company shall not grant loans against shares in the Company.

11. Shareholders' Meetings

11.1 The supreme authority in the affairs of the Company, within the limits established by these Articles of Association and statutory law, is in the hands of legitimate shareholders' meetings (Annual General Meetings and extraordinary shareholders' meetings).

11.2 The Board of Directors of the Company shall call shareholders' meetings.

11.3 Shareholders' meetings may be attended by shareholders, their proxies and advisors, the Auditor of the Company and the Managing Director.

11.4 A shareholder may appoint a proxy to attend a shareholders' meeting on his/her behalf and to exercise his/her right to vote. The proxy shall submit a written, witnessed and dated letter of proxy. The letter of proxy shall be submitted at the meeting and is valid only for one meeting unless otherwise specified in the letter of proxy.

11.5 A shareholder may attend a meeting accompanied by an advisor. The advisor shall not be entitled to speak, submit motions or vote at shareholders' meetings.

11.6 The Auditor of the Company and the Managing Director shall have full rights to speak and submit motions at shareholders' meetings even if they are not shareholders.

11.7 The Board of Directors of the Company shall have the right to invite experts to attend individual meetings if their opinion or assistance is needed.

11.8 The Annual General Meeting may establish special rules of order for shareholders' meetings.

12. Annual General Meeting

12.1 The Annual General Meeting shall be held before the end of May each year. The Annual General Meeting may be held outside the domicile of the Company.

12.2 The Board of Directors is authorised to resolve that shareholders should be permitted to participate in the business of shareholders' meeting by electronic means without being present at the venue of the meeting. Shareholders proposing to participate electronically shall notify the office of the Company with five days' notice and at the same time submit in writing any questions relating to agenda or submitted documents to which they request a response at the meeting.

If the Board of Directors is of the opinion that sufficiently secure facilities are available to make such participation possible, and in the event that the Board of Directors resolves to exercise this authorisation, such resolution shall be mentioned specifically in the notice of the meeting.

The Board of Directors is also authorised to decide that a shareholders meeting should be held by electronic means only.

In other respects, such voting is subject to Article 80 of Act No. 2/1995 on limited liability companies, as amended.

12.3 Each shareholder shall be notified of Annual General Meetings by registered letter, telegram, or other verifiable manner, including an advertisement in a daily newspaper. The notice of a meeting shall state the business of the meeting. In the event that the agenda contains a motion to amend the Articles of Association of the Company, the substance of the motion shall be included in the notice of the meeting.

The Notice shall, however, be in written form to those shareholders who have so requested and are listed in the share register. However, announcements pursuant to Paragraph 2 of Article 38 of the Companies Act on the subscription rights of shareholders shall always be in written form.

12.4 The Annual General Meeting shall be called with at least one week's notice and at most four weeks' notice.

12.5 The Annual General Meeting is valid if it has been lawfully called.

13. The Agenda of the Annual General Meeting

13.1 The Annual General Meeting shall address the following items of business:

1. The report of the Board of Directors on the activities of the Company in the preceding year of activities;

2. The audited accounts of the Company for the preceding year containing, inter alia, the proposals of the Board of Directors on the disposal of the profits or losses of the Company during the fiscal year.

3. Motions to amend the Articles of the Company, if submitted;

4. Decision on payment of dividends;

5. Election of the Board of Directors;

6. Election of a chartered auditor or accounting firm;

7. Decision on remuneration to the members of the Board of the Company for services rendered;

8. Proposal of the Board of Directors concerning the wage terms policy of the Company if it is required to elect an auditor pursuant to Article 79 of Act No. 2/1995 on limited liability companies;

9. Any other business.

13.2 In the event that shareholders controlling at least 1/3 of the shares so request in writing at the Annual General Meeting, decisions on item 2 in Section 13.1 must be postponed to an adjourned Annual General Meeting, which shall be held at the earliest one month and at the latest two months later. Requests for further postponement are not permitted.

14. Extraordinary Meetings

14.1 Extraordinary Meetings (shareholders' meetings) shall be held at the discretion of the Board of Directors, by a resolution of a meeting, or if the elected auditor or shareholders controlling a minimum of 1/10 of the shares of the Company request a meeting in writing, stating the business of the meeting, in which case the extraordinary meeting shall be called within 14 days from the date that the request was received by the Board of Directors.

14.2 Shareholders' meetings shall be called with at least one week's notice and at most four weeks' notice. If all shareholders or their proxies are present they may grant exception from this provision. Shareholders' meetings shall be called in the same manner as Annual General Meetings, as provided in Section 12.2. As regards the lawfulness of shareholders' meetings the same rules shall apply as apply to the lawfulness of the Annual General Meeting, pursuant to Sections 12.2-12-4.

15. Agenda at Shareholders' Meetings. Proposals for the Agenda

15.1 The notice of a shareholders' meeting shall specify the business to be addressed at the meeting. One week before a shareholders' meeting, at the latest, an agenda, final submissions and, in the case of Annual General Meetings, the annual accounts and the Auditor's report shall be laid open for inspection by the shareholders at the Company office.

15.2 Each shareholder shall be entitled to have a specific item of business included on the agenda of shareholders' meetings, provided that such shareholder submits a written request to this effect to the Board of Directors of the Company with sufficient advance notice for the item to be included on the agenda pursuant to these Articles.

15.3 Items which are not included on the agenda of a shareholders' meeting may not be brought to a conclusion at the meeting except with the consent of all the shareholders in the Company, but resolutions may be passed on such matters for the purpose of providing guidance to the Board of Directors. Even if an item of business has not been included on the agenda nothing shall prevent the calling of an extraordinary shareholders' meeting to discuss the matter; furthermore, an Annual

General Meeting is always permitted to conclude matters which it is required to address by law or pursuant to the Company Articles.

15.4 Lawfully submitted proposals for amendment may be submitted at the meeting itself even if they have not been laid open for inspection by shareholders

16. Conduct of Shareholders' Meetings

16.1 The Chairman of the Board of the Company or an elected chairman shall preside over shareholders' meetings and the election of a secretary. General rules of order apply at shareholders' meetings. The chairman shall verify at the beginning of the meeting whether it has been lawfully convened and whether the meeting is lawful in other respects, and declare whether such is the case. He/she shall preside over all deliberations and polls. The Chairman shall ensure that the provisions of the Company Act and the Articles of Association of the Company on voting rights and polls are upheld.

16.2 When a meeting has been called to order, a list shall be drawn up of the shareholders present and their proxies in order to ascertain how many shares and votes each of them controls. This list shall be used until such time as the shareholders' meeting decides to amend it.

17. Minutes

17.1 The secretary of the meeting shall keep the minutes. The decisions of shareholders' meetings and the results of polls shall be entered in the minutes. A list of the shareholders present and their proxies shall be entered in the minutes or accompany the minutes. The minutes shall be read out before the end of the meeting and comments recorded, if any. The chairman and the secretary shall sign the minutes.

17.2 Fourteen days following the shareholders' meeting, at the latest, shareholders shall have access to the minutes or a certified transcript of the minutes at the Company Office. The minutes shall be preserved in a secure manner.

17.3 Recorded minutes shall be full proof of the proceedings at meetings.

18. Voting Rights

18.1 At shareholders' meetings, each share carries one vote. Shares owned by the Company in itself shall carry no votes.

18.2 Decisions at shareholders' meetings shall be taken by majority vote unless otherwise provided in these Articles or statutory law. In the event of an equality of votes a motion shall be regarded as rejected. In the event of an equality of votes, elections shall be decided by casting lots.

18.3 The consent of all shareholders is required to:

a) oblige shareholders to contribute funds etc. for Company needs beyond their commitments;

b) oblige shareholders to suffer redemption of their shares in part or in full, to a greater extent than provided for by law or Article 10 of these Articles of Association, unless the Company is dissolved or the share capital lawfully reduced;

c) limit shareholders' rights to dispose of their shares.

19. The Board of Directors of the Company

19.1 The Board of Directors of the Company shall be composed of up to seven members, who shall be elected at a shareholders' meeting for a term of one year. The eligibility of members of the Board is subject to statutory law. Elections to the Board shall always be by ballot if the number of nominations exceeds the number of members to be elected.

19.2 The election of the Board of Directors shall be carried out as a majority vote between individuals. If shareholders holding at least 1/10 of the Company stock should so request, the members of the Board shall be elected by proportional or multiple voting. Requests to this effect shall be delivered to the Board of Directors at least five days prior to the meeting. In the event of requests from more than one shareholder group that calk for both proportional and multiple voting then multiple voting shall be used.

19.3 The Board shall elect a Chairman of the Board from among its members, and allocate tasks in other respects as required.

20. Meetings of the Board of Directors

20.1 The Chairman of the Board shall convene meetings of the Board and preside at Board meetings. Meetings shall be held at the discretion of the Chairman. The Chairman shall also call a meeting of the Board if requested by one member of the Board or the Managing Director. Board Meetings shall be called with at least 24 hours notice. Meetings of the Board of Directors are legally constituted if attended by a majority of the Board or their alternates. A decision made by the Board of Directors shall be deemed valid if supported by a majority of the Board members.

20.2 Members of the Board shall keep minutes of proceedings at meetings of the Board and confirm such minutes with their signatures.

21. Duties of the Board of Directors

21.1 The Board of Directors of the Company holds the supreme authority in the affairs of the Company between shareholders' meetings. It shall handle the affairs of the Company and ensure that its organisation and operation are at all times in correct and appropriate order. The Board shall ensure adequate supervision of the accounts and disposal of the Company's assets.

21.2 The Board of Directors shall appoint a Managing Director of the Company and decide on the terms of his/her employment.

21.3 Only the Board of Directors may assign powers of procuration on behalf of the Company.

21.4 The signatures of the majority of the Board shall bind the Company.

21.5 The Board of Directors shall establish rules of procedure setting out further details of the conduct of its duties.

21.6 In other respects, the responsibilities, powers and work of the Board of Directors shall be governed by statutory law.

22. Managing Director

22.1 The Managing Director of the Company and the Board of Directors are jointly responsible for the management of the Company.

22.2 The Managing Director has charge of the day-to-day operations of the Company, and in this respect he/she shall observe the policy and directions of the Board of Directors. Day-to-day operations do not include measures which are unusual or extraordinary. Such measures may only be taken by the Managing Director pursuant to special authorisation from the Board of Directors of the Company, unless it is impossible to wait for the decisions of the Board of Directors without seriously disadvantaging the operation of the Company. In such cases, the Board of Directors shall be notified of the measures without delay.

22.3 The Managing Director shall ensure that the accounts and finances of the Company conform to law and accepted principles and that the handling of the Company's assets is secure.

22.4 The Managing Director shall appoint the employees of the Company, but shall seek the approval of the Board of Directors on the appointment of key personnel. He/she is also empowered to dismiss personnel, if necessary, and negotiate their salaries.

22.5 The Managing Director shall fulfil all the competence requirements provided for by law at each time.

23. Accounts and Auditing

23.1 A chartered accountant or accounting firm shall be elected as Company auditor at each Annual General Meeting of the Company for a term of one year. The Auditor shall examine the Company's accounts and all accounting data for each year of operation, and shall for this purpose have access to all the Company's books and documents.

23.2 Auditors shall not be elected from among the members of the Board or employees of the Company or be in their personal employ. The qualifications and eligibility of the auditor at elections are in other respects governed by law.

24. Operating and Fiscal Year

24.1 The operating year and fiscal year of the Company shall be the calendar year. The Board of Directors of the Company shall prepare the annual accounts and the annual report. The annual account and the annual report shall form a single document.

24.2 The annual accounts shall be prepared in accordance with law and generally accepted accounting standards, both as regards the assessment of the various items, organisation, itemisation, notes and headings of items.

25. Further on Auditing

25.1 The auditor shall prepare an auditing report to be submitted to the Annual General Meeting in accordance with the provisions of law on annual accounts. The report shall be delivered to the Board of Directors no later than two weeks before the Annual General Meeting. The annual accounts and the report shall be available for inspection by the shareholders at least one week before the Annual General Meeting.

26. Amendments to the Articles of the Company. Decisions on Substantial Operating Changes.

26.1 These Articles of Association may be amended at a lawfully convened Annual General Meeting or extraordinary shareholders' meeting by 2/3 of the cast votes and the consent of shareholders controlling at least 2/3 of the shares in the Company represented at the meeting, subject to the provisions of Section 18.3.

26.2 If the agenda includes a motion to amend the Articles of the Company, the main substance of the motion shall be included in the notice of the meeting.

27. Dissolution, Merger or Division of the Company

27.1 Decisions on the dissolution of the Company, its merger with other companies or its division shall be subject to the provisions of the Companies Act and other applicable legislation. Such decisions must be approved at a shareholders' meeting with the same majority as provided for in Section 26.1.

28. Further Provisions

28.1 Matters on which these Articles provide no directions shall be governed by the provisions of the Companies Act and such provisions of other statutory law as may be applicable.

28.2 So approved at a shareholders' meeting of the Company on 15 March 2007. Amended as authorised in Section 4.6 on 3 August, 2007 and 26 September 2007 and in accordance with decision of the Annual General meeting of 27 February 2008.

Reykjavík 27 February 2008

SKIPTI'S CONSOLIDATED FINANCIAL STATEMENTS 2007

Contents

Endorsement by the Board of Directors and CEO

Skipti´s net profit for the year amounted to ISK 3,082 million. According to the Balance Statement the Company´s assets amount to ISK 97,641 million, the year´s end book value of equity is ISK 32,757 million and the Company´s equity ratio is 33,5%. As regards changes in the equity of the Company, the Board refers to the Financial Statements.

At year-end, shareholders in Skipti hf. numbered 1,036, compared to 1,053 at the beginning of the year. Two shareholders owned more than 10% of the shares in the Company at year-end: Exista B.V., with 43.7%, and Kaupþing banki hf., with 27.8%.

On Síminn´s General meeting on March 15th 2007 it was approved to de-merger Síminn to Skipti, Míla, Fasteignafélagið Jörfi and Síminn where Skipti became the parent company. Comparative numbers in the Financial Statements are therefore based on Síminn´s Financial Statements for 2006.

It is the opinion of the Board of Directors and the CEO that these Financial Statements present all the information necessary to show the position of the Company at year-end, the operating results for the year and the financial developments during the year 2007. The Board of Directors and CEO hereby confirm the Financial Statements for the year 2007 with their signatures.

Reykjavík, January 31 2008

Board of Directors:

Lýður Guðmundsson, chairman

Rannveig Rist

Panikos Katsouris

Erlendur Hjaltason

Sigurgeir Brynjar Kristgeirsson

CEO:

Brynjólfur Bjarnason

Independent Auditor's Report

To the Board of Directors and shareholders of Skipti hf.

Report on the Financial Statements

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

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

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

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

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

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

Reykjavík, 31 January 2008

Deloitte hf.

Hilmar A. Alfreðsson
State Authorized Public Accountant

Consolidated Income Statement
for the year 2007

	Notes	2007	2006 *
Net sales		32.719.079	25.030.127
Cost of sales		(18.972.885)	(13.671.369)
Gross profit		13.746.194	11.358.758
Other operating income		638.690	265.013
Operating expenses		(9.093.817)	(7.018.256)
Operating profit		5.291.067	4.605.515
Finance costs	8	(3.274.070)	(8.936.267)
Share of loss in associates		(26.003)	(6.435)
Profit (loss) before tax		1.990.994	(4.337.187)
Income tax		(304.933)	777.461
Profit (loss) for the year from continuing operations		1.686.061	(3.559.726)
Discontinued operation			
Profit for the year from discontinued operations	23	1.395.755	0
Profit (loss) for the year		3.081.816	(3.559.726)
Attributable to:			
Equity holders of the parent		3.045.801	(3.581.065)
Minority interest		36.015	21.339
		3.081.816	(3.559.726)
Earnings per share:			
Earnings (loss) per share	10	0,43	(0,12)

* Comparative figures for the year 2006 are from Siminn hf. Consolidated Financial Statements

Skipti hf. - Consolidated Financial Statements 5 All amounts are in thousands of ISK

Consolidated Balance Sheet at 31 December 2007

	Notes	31.12.2007	31.12.2006
Assets			
Non-current assets			
Property,plant and equipment	11	15.556.136	17.842.927
Intangible assets	13	66.765.472	61.155.750
Investments in associated companies	15	471.421	528.807
Investments in other companies	16	1.972.961	1.421.977
Other investment		279.597	150.000
Non-current assets		85.045.587	81.099.461
Current assets			
Inventories	17	1.133.581	841.939
Accounts receivables		5.313.812	5.755.229
Other receivables		879.034	156.729
Cash and cash equivalents		5.269.137	1.053.380
Current assets		12.595.564	7.807.277
Assets		97.641.151	88.906.738
Equity and Liabilities			
Equity			
Share capital	18	7.365.146	7.000.000
Reserves		1.383.522	0
Translation reserves		(366.063)	0
Retained earnings		24.005.049	21.113.259
Equity holders of the parent		32.387.654	28.113.259
Minority interest		368.900	1.333.614
Equity		32.756.554	29.446.873
Non-current liabilities			
Borrowings	19	50.435.129	50.747.020
Deferred tax liabilities		304.731	156.224
Non-current liabilities		50.739.860	50.903.244
Current liabilities			
Bank loans		2.051.484	185.181
Accounts payables		4.674.284	2.246.766
Current maturities of borrowings	20	2.785.350	3.430.293
Other current liabilities		4.633.619	2.694.381
Current liabilities		14.144.737	8.556.621
Total liabilities		64.884.597	59.459.865
Total equity and liabilities		97.641.151	88.906.738

Skipti hf. - Consolidated Financial Statements 6 All amounts are in thousands of ISK

Consolidated Cash Flow Statement
for the year 2007

	Notes	2007	2006*
Cash flow from operating activities			
Operating profit		5.291.067	4.605.515
Operational items not affecting cash flow:			
Depreciation and amortisation		4.202.025	3.837.204
Gain on sale of fixed assets		(2.337)	(17.466)
Changes in current assets and liabilities		(476.278)	229.027
Cash generated by operation		9.014.477	8.654.280
Interest income received during the year		426.591	238.663
Payments of taxes during the year		0	(197.485)
Interest expenses paid during the year		(2.550.553)	(1.989.148)
Net cash from operating activities		6.890.515	6.706.310
Investing activities			
Investment in property, plant and equipment		(3.490.094)	(2.117.310)
Investment in intangible assets		(358.567)	(453.304)
Proceeds from sale of property, plant and equipment		42.510	56.062
Changes in other investments		41.909	23.291
Changes in investment in other companies		(474.762)	(2.692.121)
Investing activities		(4.239.004)	(5.183.382)
Financing activities			
Dividend paid		0	(630.907)
New borrowings		3.085.347	1.892.176
Payments of non-current liabilities		(3.262.920)	(2.444.183)
Bank loans, increase		1.791.584	324.033
Buyback of ordinary shares		(3.108)	(232.834)
Financing activities		1.610.903	(1.091.715)
Increase in cash and cash equivialents		4.262.414	431.213
Effects of exchange rate changes on the balance of cash		(46.657)	157.297
Cash and cash equivialents at the beginning of year		1.053.380	464.870
Cash and cash equivialents at the end of the year		5.269.137	1.053.380

* Comparative figures for the year 2006 are from Siminn hf. Consolidated Financial Statements

Skipti hf. - Consolidated Financial Statements 7 All amounts are in thousands of ISK

Consolidated Statement of Changes in Equity
for the year 2007

	Share capital	Reserves	Translation reserves	Retained earnings	Equity holders of the parent	Minority interest	Total equity
Total equity 1.1.2007	7.000.000	0	0	21.113.259	28.113.259	1.333.614	29.446.873
Profit for the year				3.045.801	3.045.801	36.015	3.081.816
Change in minority interest					0	(1.000.729)	(1.000.729)
Translation reserve			(366.063)		(366.063)		(366.063)
Recognition of share-based payments		65.200			65.200		65.200
New capital issued	368.421	1.164.849			1.533.270		1.533.270
Provision for statutory reserve		154.011		(154.011)	0		0
Buyback of ordinary shares	(3.275)	(538)			(3.813)		(3.813)
Total equity 31.12.2007	7.365.146	1.383.522	(366.063)	24.005.049	32.387.654	368.900	32.756.554

Skipti hf. - Consolidated Financial Statements 8 All amounts are in thousands of ISK

Notes to the Consolidated Financial Statements

1. General information

Skipti hf. is a limited liability company incorporated in Iceland.

2. Adoption of new and revised Standards

2.1 Standards and Interpretations effective in the current period

In the current year, the Group has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following Standards and interpretations were in issue but not effective:

	Effective:
- IFRS 8, Operating Segments	1 January 2009
- IAS 23 (Revised) Borrowing costs	1 January 2009

At the date of authorisation of these financial statements, the following Interpretations were in issue but not effective:

- IFRIC 11, IFRS 2: Group and Treasury Share Transactions	1 March 2007
- IFRIC 12, Service Concession Arrangements	1 January 2008
- IFRIC 13, Customer Loyalty Programmes	1 July 2008
- IFRIC 14, IAS 19 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	1 January 2008

The directors anticipate that all of the above Interpretations will be adopted in the Group's financial statements for the period commencing 1 January 2008 and that the adoption of those Interpretations will have no material impact on the financial statements.

Skipti hf. - Consolidated Financial Statements 2007 9 All amounts are in thousands of ISK

Notes to the Consolidated Financial Statements

3. Significant Accounting Policies

3.1 Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by European Union (EU).

3.2 Basis of preparation

The Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out below.

3.3 Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Company.
All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3.4 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3.5 Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3.6 Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described at 3.5 above.

3.7 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Notes to the Consolidated Financial Statements

3.8 Revenue recognition
Revenue from telecommunication services is recognized in profit or loss when the service is performed. Revenue from the sale of goods is recognized in profit or loss when the significant risks and rewards of ownerships have been transferred to the customer. Revenue from advertising in television are recognized in profit or loss when the advertisements are shown. They are recognized as revenue when first published although the same advertisement can be shown more than once because of reruns of television shows. The same rule is applied to sponsorship of particular television shows. No revenue is recognized if there are significant uncertainties regarding collection of the due revenue or on the possibility of goods being returned.

3.9 Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3.9.1 The Group as lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group’s net investment outstanding in respect of the leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the

3.9.2 The Group as lessee
Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group’s general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.
Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.
In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.10 Foreign currencies
The individual financial statements of each Company's entity are presented in the currency of the primary economic environment in which the entity operates in. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Icelandic krona which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Icelandic krona using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3.11 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is deferred in equity and released to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.12 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Notes to the Consolidated Financial Statements

3.13 Share-based payments
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instrument at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period.

3.14 Taxation
Income tax expense represents the sum of the tax currently payable and deferred tax.

3.14.1 Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3.14.2 Deferred tax
Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3.14.3 Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

3.15 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefit embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other cost is recognized in profit or loss as an expense as incurred.
Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful life is as follows:

Telecommunication equipment	4 – 18 years
Buildings	15 - 33 years
Machinery and equipment	3 – 10 years
Vehicles	5 – 10 years

The residual value is reassessed annually.

3.16 Intangible assets

3.16.1 Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3.16.2 Internally-generated intangible assets – research and development expenditure

Expenditure on research activities and development is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

• the technical feasibility of completing the intangible asset so that it will be available for use or sale;
• the intention to complete the intangible asset and use or sell it;
• the ability to use or sell the intangible asset;
• how the intangible asset will generate probable future economic benefits;
• the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
• the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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Notes to the Consolidated Financial Statements

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

3.16.3 Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

3.17 Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.18 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.19 Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3.19.1 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

3.19.2 Financial assets at FVTPL
Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

• it has been acquired principally for the purpose of selling in the near future; or

• it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

• it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

• such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

• the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

• it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

3.19.3 Held-to-maturity investments
Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

3.19.4 AFS financial assets
Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group’s right to receive payments is established.
The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

3.19.5 Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

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3.19.6 Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

• significant financial difficulty of the issuer or counterparty; or

• default or delinquency in interest or principal payments; or

• it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

3.19.7 Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3.20 Financial liabilities and equity instruments issued by the Group

3.20.1 Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

3.20.2 Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

3.20.3 Compound instruments
The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

3.20.4 Financial liabilities
Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

FVTPL
Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or ivestment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

3.20.5 Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.
3.20.6 Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3.21 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.
Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

3.21.1 Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

3.21.2 Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3.21.3 Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

3.21.4 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.
Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

3.21.5 Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the ’other gains and losses’ line of the income statement.
Gains and losses deferred in the foreign currency translation reserve are recognised in profit or loss on disposal of the foreign operation.

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4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5. Segment Reporting

Geographical segments

	Domestic business	International business	Total
Net sales	26.030.704	6.688.375	32.719.079
Cost of sales	(13.844.371)	(5.128.514)	(18.972.885)
Gross profit	12.186.333	1.559.861	13.746.194
Other operating income	548.757	89.933	638.690
Operating expenses	(7.807.573)	(1.286.244)	(9.093.817)
Operating profit	4.927.517	363.550	5.291.067
Finance costs	(3.012.888)	(261.182)	(3.274.070)
Share of loss in associates	(26.003)		(26.003)
Income tax	(260.257)	(44.676)	(304.933)
Profit for the year from continuing operations	1.628.369	57.692	1.686.061
Depreciation included above	3.991.958	210.067	4.202.025
Assets	87.359.271	10.281.880	97.641.151
Liabilities	(56.422.341)	(8.462.256)	(64.884.597)

Business segments

	Telecommunications	Information technology	Media and entert.	Total
Net sales	24.337.295	6.390.764	2.629.710	33.357.769
Aquisition of segment assets	3.706.024	134.841	7.796	3.848.661
Assets	15.149.965	2.502.728	650.243	18.302.936
Unallocated assets				79.338.215
Consolidated total assets				97.641.151

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6. Financial risk

The Group´s activities mean that its operations, assets, debt and equity are exposed to variety of financial risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group´s financial risks are managed centrally by its Treasury function on the basis of written principles. A corporate finance committee led by the CEO of the Group meets monthly to review the its borrowing portfolio and currency risk.

Interest rate risk:

The Group´s borrowing consists of listed bonds issued in ISK at a fixed rate, foreign currency loans with floating interrest rates and other borrowings in ISK with floating interest rate. The Group uses interest rate swaps to fix a small part of the floating interest rate risk in foreign currency borrowings until year end 2009.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 or 100 basis point increase or decrease represents management´s assessment of the reasonably possible change in interest rates. The analysis assume that all other variables, than interest rates, are held constant. A positive number below indicates an increase in profit and equity but a negative number would have an opposite impact.

	2007	
	50 bps	100 bps
Profit or loss	(155.518)	(311.037)
Equity	(155.518)	(311.037)

Foreign exchange risk:

The Group is primarily exposed to EUR, USD, CHF, GBP, JPY, SEK and DKK. The largest effect is through the Group's borrowings which to a large extent is in foreign currencies, although closely correlated to the Icelandic currency basket. To a lesser extent, foreign exchange rates affect revenues and operational costs related to international telecommunication and IT services, as well as operations in foreign subsidiaries. A considerable proportion of the Group's capital expenditure is in foreign currencies. The Group hedges a part of its foreign exchange exposure. The level of hedging varies upon the economical outlook and interest rate difference at any given time. Currently more than 70% of borrowing in foreign currencies, for domestic purposes, has been transferred over to ISK debt. Foreign currency risk of borrowing for the purpose of funding foreign acquisitions is offset by the asset acquired. The Group's position is analysed monthly by a corporate finance committee steered by the CEO of Group.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Group has designated some of the foreign borrowings as a hedge against net investment in a foreign operations as a hedge in accordance with IAS 39.

	Year end exchange rate		Year end
Currency	Buy	Sell	volatility
DKK	12,19	12,27	12,55%
EUR	90,95	91,45	12,54%
GPB	124,0	124,6	12,36%
JPY	0,552	0,555	19,77%
CHF	54,96	55,26	14,83%
USD	61,85	62,15	14,13%
CAD	62,99	63,35	13,24%
SEK	9,657	9,713	12,74%

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The table below shows the Groups exposure to foreign currency risk.

31.12.2007	Foreign currency risk exposure Assets	Liabilities	Net position
EUR	10.063.191	9.002.446	1.060.745
GPB	2.450.577	3.113.596	(663.019)
JPY	0	4.075.903	(4.075.903)
CHF	3.759.857	8.542.301	(4.782.444)
USD	7.692.608	5.894.133	1.798.475
CAD	0	1.508.874	(1.508.874)
DKK	800.000	0	800.000
SEK	737.000	0	737.000

Sensitivity analysis

The following table details the Group´s sensitivity to a 5 or 10 percent increase or decrease in the relevant foreign currency rate. It represents management´s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5 or 10% change in foreign currency rates. The analysis assumes that all other variables, than foreign currency rates, are held constant. A positive number below indicates an increase in profit and equity but a negative number would have an opposite impact.

	Profit or loss		Equity	
	5%	10%	5%	10%
EUR	43.491	86.981	43.491	86.981
GPB	(27.184)	(54.368)	(27.184)	(54.368)
JPY	(167.112)	(334.224)	(167.112)	(334.224)
CHF	(196.080)	(392.160)	(196.080)	(392.160)
USD	73.737	147.475	73.737	147.475
CAD	(61.864)	(123.728)	(61.864)	(123.728)
DKK	32.800	65.600	32.800	65.600
SEK	30.217	60.434	30.217	60.434

Credit risk:

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group´s exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date in addition to certain financial guarantees. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies

The Group's maximum exposure to credit risk without taking into account value of any collateral obtained is represented in the table below:

	Maximum credit risk 31.12.2007
Accounts receivables	5.313.812
Liquid funds	5.269.137
Other financial assets	1.158.631
Financial guarantees	939.930
	12.681.598

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Liquidity risk:

The Group has considerable investments in long-term assets. The borrowing is therefore structured with a high proportion of long-term debt with moderate repayments of facilities and un-drawn credit lines is showed in the table below. The following table shows the Group´s remaining expected maturity for its financial liabilities and financial assets. The table has been drawn up based on the undiscounted cash flow of financial liabilities based on the earliest date on wich the Group can be required to pay. The weighted average effective fixed interest rate is 6,00% and the weighted average effective floating interest rate is 6,99%. The Group has facilities and un-drawn credit lines amounting to ISK 9,8 billion.

	2008	2009	2010	Later	Total
Fixed interest rate	24.856	24.856	99.425	15.850.542	15.999.679
Floating interest rate	4.841.305	2.755.696	2.755.696	30.181.176	40.533.873
Other	8.046.314				8.046.314
	12.912.475	2.780.552	2.855.121	46.031.718	64.579.866
Interest bearing assets	21.813	5.321	5.321	247.142	279.597
Non interest bearing assets	11.461.983				11.461.983
	11.483.796	5.321	5.321	247.142	11.741.580

7. Personnel

Average number of employees, adjusted for full-time employment	1.748
Number og employees at year-end	1.896

Salaries and related expenses are specified as follows:

Salaries	10.882.755
Related expenses	2.013.199
	12.895.954

Salaries paid to the Company's Board of Directors, CEO and other senior Directors of the Company amounted to ISK 435 million. The Group has entered into share option agreements with 16 employees. The 16 employees are entitled by these share purchase agreements to purchase shares in Skipti with an aggregate market value of ISK 241 million at a discount of ISK 109 million. The number of shares will be determined based on the offer price in the public offering. The options can be exercised in the period of June 2008 until September 2008 and the exercise price will be determined by the offer price in the public offering due in March 2008. The fair value of share options are measured using a Black-Scholes model. Total regnonised espenses for the year arising from share based payment transactions amounted to ISK 63 million.

8. Financial income and expenses

Interest earned	410.181
Income from investments	687.765
Interest and indexation expenses	(4.443.187)
Exchange gains (loss)	71.171
Finance cost total	(3.274.070)

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9. Income taxes

Income tax recognised in profit or loss

Tax expense comprises:

Current tax expense	360.040
Deferred tax expense	251.278
	611.318

Attributible to:

Continuing operations	304.933
Discontinued operations	306.385
	611.318

The total charge for the year can be reconciled to the accounting profit as follows:

Profit from continuing operations		1.990.994
Profit from discontinued operations		1.702.140
Profit from operations		3.693.134
Income tax using the corporation tax rate	18,0%	664.764
Dividend	-0,2%	(7.076)
Effects of different tax rates of subsidiaries	0,7%	25.662
Other changes	-2,0%	(72.032)
Effective tax rate	16,5%	611.318

10. Earnings per share

Basic and diluted earnings per share

From continuing operations	0,19
From discontinuing operations	0,24
Total basic and diluted earnings per share	0,43

10.1 Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

Profit for the year attributable to equity holders of the parent	3.045.801
Earnings used in the calculation of total basic earnings per share	3.045.801
Profit for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations	1.686.061
Earnings used in the calculation of basic earnings per share from discontinuing operations	1.359.740
Weighted average number of ordinary shares for the purposes of basic earnings per share	7.212.022

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11. Property, plant and equipment

	Telecommuni-cations equipment	Buildings and land	Machinery and equipment	
Cost				
Total value 1.1.2007	37.759.150	361.717	1.203.383	39.324.250
Additions during the year	3.257.861	1.576.299	871.442	5.705.602
Additions through business combinations	0	87.756	155.815	243.571
Reclassified			(20.652)	(20.652)
Net foreign currency exchange differences	0	0	(34.119)	(34.119)
Sales and disposals during the year	(98)	(14.032)	(74.612)	(88.742)
	41.016.913	2.011.740	2.101.257	45.129.910
Depreciation				
Total value 1.1.2007	(25.123.972)	(264.071)	(890.176)	(26.278.219)
Additions through business combinations	0	(946)	(1.313)	(2.259)
Reclassified			1.092	1.092
Depreciation during the year	(2.973.982)	(98.018)	(250.907)	(3.322.907)
Sales and disposals during the year	0	10.961	17.498	28.459
Net foreign currency exchange differences			60	60
	(28.097.954)	(352.074)	(1.123.746)	(29.573.774)
Net book value 31.12.2007	12.918.959	1.659.666	977.511	15.556.136

The official real estate valuation on the Company's buildings and land amounted to ISK 830 million at year-end 2007 and the insurance value amounted to ISK 1,496 million at the same time. The insurance value of machinery and equipment amounted to ISK 13,014 million.

12. Depreciation is specified as follows in the income statement:

	2007
Cost of sales	3.043.805
Operating expenses	1.158.220
Total	4.202.025

13. Intangible assets

	Goodwill	Software	Contractual-rights	Total
Cost				
Total value 1.1.2007	60.461.636	3.674.625	69.443	64.205.704
Additions during the year	4.538.343	416.741		4.955.084
Additions through business combinations	1.675.037	0		1.675.037
Reclassified		20.652		20.652
Net foreign currency exchange differences	(87.253)	0		(87.253)
Sales and disposals during the year		(132.443)		(132.443)
	66.587.763	3.979.575	69.443	70.636.781
Amortisation				
Total value 1.1.2007		(3.089.245)		(3.089.245)
Additions through business combinations		0		0
Reclassified		(17.498)		(17.498)
Amortisation during the year	(464.079)	(345.596)	(69.443)	(879.118)
Net foreign currency exchange differences				0
Sales and disposals during the year		114.552		114.552
	(464.079)	(3.337.787)	(69.443)	(3.871.309)
Net book value 31.12.2007	66.123.684	641.788	0	66.765.472

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Notes to the Consolidated Financial Statements

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

In performing the annual impairment test of goodwill, an assessment is made as to whether the individual units of the company (cash-generating units) to which goodwill relates will be able to generate sufficient positive net cash flows in the future to support the value of goodwill, trademarks with an indefinite useful life and other net assets of the entity.

The estimates of future net free cash flows are based on budgets and business plans for the next five years and the terminal period. Key parameters are sales growth, operating margin, future capital expenditure and growth expectations beyond the next five years. Discount rates which reflect the risk-free interest rate with the addition of specific risks related to equity and liabilities in each particular segment are used to calculate recoverable amounts.

Measurement of trademarks is based on expected future cash flows for the trademarks on the basis of key assumptions about expected useful life and relief from royalty rate and a theoretically calculated tax effect. A discount rate is used which reflects the risk-free interest rate with the addition of specific and estimated future risks associated with the particular trademark.

The impairment test of goodwill did not result in impairment loss.

At 31 December the carrying amount of goodwill and trademarks with an indefinite useful life for the Group's cash-generating units, summarised at segment level, was as follows:

	2007
Telecommunication	62.145.210
Information technology	3.978.474
Total goodwill	66.123.684

14. Subsidiaries

Aerofone Ltd.	100,0%
Businessphone Group A/S	100,0%
Gaukshöfði ehf.	100,0%
Míla ehf.	100,0%
On-waves S.ä.r.l.	100,0%
On-waves ehf.	85,0%
Landssíminn ehf.	100,0%
Radíómiðun ehf.	75,0%
Sensa ehf.	100,0%
Sensa DK Aps	100,0%
Siminn DK Aps	100,0%
Skipti DK Aps	100,0%
Siminn UK Ltd.	100,0%
Sirius IT A/S	92,2%
Síminn hf.	100,0%
Skjá miðlar ehf.	100,0%
Skjárinn ehf.	100,0%
Stefja hf.	62,7%
Ventelo A/S	100,0%
Tæknivörur ehf.	53,5%
Já Upplýsingaveitur ehf.	100,0%

Skipti hf. - Consolidated Financial Statements 2007 27 All amounts are in thousands of ISK

Notes to the Consolidated Financial Statements

15. Associates

The Group's share in the operating result of its associated companies was a loss of ISK 26 million. The share in net equity amounted to ISK 471 million at the end of the year.

	Ownership %	Nominal value	Book value
Eignarhaldsfélagið Farice ehf.	13,4%	395.477	301.295
Farsímagreiðslur ehf.	40,5%	28.350	15.028
Hið íslenska númeraflutningsfélag ehf.	50,0%	4.000	3.586
Nordisk Mobil Ísland ehf.	50,0%	250	250
Titan upplýsingatækni ehf.	20,1%	10.000	18.490
Titan invest ehf.	50,0%	250	7.500
Þræðir ehf.	46,7%	234	103.421
Trackwell ADS	50,0%	-	8.651
Bolignet A/S	33,3%	-	13.200
Total			471.421

16. Investment

At the end of the year the Company owned shares in four foreign and ten domestic companies where the ownership was less than 20%. Ownership in Carrera Ltd. amounted to ISK 1.195 million.

17. Inventories

	2007
Finished goods	730.663
Work in progress	134.321
TV programs for screening	268.597
Inventory total	1.133.581

18. Share capital

Share capital as at 31 December 2007 amounted to ISK 7.368 million. Own shares amounted to ISK 3 million.

19. Non-current liabilities:

Borrowings are specified as follows by currency denominations:

Loans in USD	5.894.133
Loans in EUR	9.002.446
Loans in GBP	3.113.596
Loans in JPY	4.075.903
Loans in CHF	8.542.300
Loans in DKK	4.811.009
Loans in ISK	17.781.092
Current maturities of borrowings	(2.785.350)
	50.435.129

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Notes to the Consolidated Financial Statements

20. Annual maturities of borrowings are specified as follows:

In the year 2008	2.785.350
In the year 2009	2.752.363
In the year 2010	2.869.808
In the year 2011	3.166.230
In the year 2012	2.900.993
Subsequent payments	38.745.735
Total borrowings, including current maturities	53.220.479

21. Deferred tax for the Group is specified as follows:

Deferred tax at the beginning of the year	156.224
Acquistions/disposals	(102.771)
Income tax posted to the income statement	304.933
Income tax of discontinued operations	306.385
Income tax payable next year	(360.040)
Deferred tax liability at the end of the year	304.731

The deferred tax liability is allocated as follows:

Property and equipment	34.321
Accounts receivable	(8.637)
Inventories	856
Other items	278.191
Deferred tax liability at the end of the year	304.731

22. Aquisitions of subsidiaries

Analysis of assets and liabilities acquired:	Aerofone Ltd.	Business-Phone A/S	Sensa ehf.	Ventelo
Tangible assets	3.452	11.068	93.912	118.003
Intangible assets	334.515	63.318	0	1.277.204
Loans and accounts receivable	60.181	92.631	161.581	419.471
Financial assets	5.245	3.989	38.314	12.539
Other assets	31.562	0	18.526	4.515
Cash	75.360	4.988	70.645	162.590
Total assets	510.315	175.994	382.978	1.994.322
Deferred taxation	4.373	0	(2.711)	1.662
Borrowings	(63.040)	0	(56.165)	(76.426)
Other liabilities	(254.709)	(119.259)	(135.712)	(621.148)
Total liabilities	(313.376)	(119.259)	(194.588)	(695.912)
Net assets	196.939	56.735	188.390	1.298.410
Goodwill	1.137.377	535.710	871.905	1.579.450
	1.334.316	592.445	1.060.295	2.877.860
Satisfied by:				
Paid in cash	1.260.803	563.912	215.000	2.864.183
Shares in Skipti hf., not issued	0	0	840.000	0
Direct costs relating to acquisition	73.513	28.533	5.295	13.677
	1.334.316	592.445	1.060.295	2.877.860

As is permitted by IFRS 3, Business combinations, the assessment of the fair value of the net assets is provisional up to one year from the date of acquisition. If acquisitions had been completed on the first day of the financial year the company´s operating profit for the period would have been 232 millions kr. higher

Skipti hf. - Consolidated Financial Statements 2007 29 All amounts are in thousands of ISK

Notes to the Consolidated Financial Statements

During the year Skipti sold 46,5 % of its shares in Tæknivörur ehf. The sale had a limited effect on Skipti income statement and balance sheet.

23. Discontinued operations

In September the Group sold its entire share in the wholy owned subsidiary Fasteignafélagið Jörfi ehf. As main part of revenues and cost where transactions within the group no breakdown of operation is shown. The main reason for the sale was that real estate operation is not part of the Group´s objectives, so it was decided to divest the Group´s real estate assets and rent those that were necessary on long-term leases.

Details of the disposal net are as follows:

Non-current assets	
Property, plant and equipment	2.817.574
Non-current liabilities	
Deferred tax liabilities	(101.109)
Net assets disposed of	2.716.465
Profit on disposal net of taxes	1.702.140
Taxes	(306.385)
Net gain on disposal	1.395.755

Mortgages and guarantees

24. Assets of the Group are mortgaged to guarantee loans, which amount to ISK 32,509 m.kr. at the end of the year 2007.

25. The Group has guaranteed loans for Farice hf. that are nominated in foreign currencies and amounted to ISK 939 million at the end of the year. The Group's commitments on the lease of a submarine telecommunications cable amount to ISK 107 million annually until 2012. The Group's commitments on account of housing leases amount to ISK 408 million annually until 2018.

26. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Events after the balance sheet date:

27. There have been no material post balance sheet events that have not already been disclosed and would require adjustments to the statements.

28. The consolidated financial statements were approved by the board of directors and authorised for issue on the 31 January 2008.

Skipti hf. - Consolidated Financial Statements 2007 30 All amounts are in thousands of ISK

SÍMINN'S CONSOLIDATED FINANCIAL STATEMENTS 2006

Contents

Endorsement by the Board of Directors and the CEO

The Consolidated Financial Statements consist of Consolidated Statements for Síminn hf. and its subsidiaries.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by EU.

Loss for the year, according to the Income Statement amounted to ISK 3.560 million. Total assets amounted to 88.907 million at the end of the year and total equity amounted to 28.447 million at the end of the year. Otherwise the board of directors refers to the Consolidated Financial Statements regarding changes in the Company's net worth and disposal of profit.

The Company entered into an agreement with Landsvirkjun to buy a 25% of shares in Fjarski hf. and also to buy a share in a fiber optic cable network from Fjarski hf. Since an approval from the Competition Authority is required no amounts have been entered in the Consolidated Financial Statements.

The subsidiary Anza incorporated a company Sirius IT Holding A/S. Sirus then bought all operations related to providing IT service to the public sector in Denmark, Norge and Sweden from the company TietoEnator, for the price of 2.640 million.

At the year-end the number of shareholders were 1.053. At the beginning of the year there were 1.072 shareholders. At year-end two shareholders hold more than 10% of the shares, Exista B.V. with 43,7% of the shares and Kaupthing Banki hf. with 27,8% of the shares. The Board of Directors proposes that no dividend will be paid out to the shareholders.

The Board and the CEO of Síminn hf. are of the opinion that the Consolidated Financial Statements contain all the information necessary to evaluate the financial position of the Group on 31 December 2006, the operational result for the year 2006 and the financial developments during the year. The Board of Directors and the CEO of Síminn hf. hereby confirm the Company's Consolidated Financial Statements for the year 2006 with their signatures.

Reykjavík, 8 February 2007.

Board of Directors:

Lýður Guðmundsson, chairman

Rannveig Rist

Panikos Katsouris

Erlendur Hjaltason

Sigurgeir Brynjar Kristgeirsson

CEO:

Brynjólfur Bjarnason

Independent Auditors' Report

To the Board of Directors and shareholders of Síminn hf.

Report on the Financial Statements
We have audited the accompanying financial statements of Síminn hf., which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of Síminn hf. as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Reykjavík, 8 February 2007.

Deloitte hf.

Hilmar A. Alfreðsson
State Authorized Public Accountant

Consolidated Income Statement
for the year 2006

	Notes	1 July - 31 December 2006	1 July - 31 December 2005	1 January - 31 December 2006	1 January - 31 December 2005
Net sales	2	13.276.058	11.577.707	25.030.127	21.641.489
Cost of sales		(7.228.689)	(6.478.914)	(13.671.369)	(11.923.315)
Gross profit		6.047.369	5.098.793	11.358.758	9.718.174
Other operating income	2	120.987	178.352	265.013	399.943
Operating expenses		(3.529.230)	(3.306.178)	(7.018.256)	(6.511.884)
Operating profit		2.639.126	1.970.967	4.605.515	3.606.233
Financial income (expenses)	6	835.408	(170.276)	(8.936.267)	692.214
Share of profit (loss) in associates		4.726	(15.161)	(6.435)	(30.736)
(Loss) profit before tax		3.479.260	1.785.530	(4.337.187)	4.267.711
Income tax	7	(631.565)	94.615	777.461	(235.622)
(Loss) profit for the period		2.847.695	1.880.145	(3.559.726)	4.032.089
Attributable to:					
Equity holders of the parent		2.828.441	1.873.922	(3.581.065)	4.019.749
Minority interest		19.254	6.223	21.339	12.340
		2.847.695	1.880.145	(3.559.726)	4.032.089
Earnings per share:					
Earnings per share	8	0,09	0,10	(0,12)	0,21

Síminn hf. - Consolidated Financial Statement 2006 5 All amounts are in thousands of Icelandic kronas

Consolidated balance sheet 31 December 2006

	Notes	31.12.2006	31.12.2005
Assets			
Non-current assets			
Property, plant and equipment	9	17.842.927	18.770.834
Intangible assets	11	61.155.750	58.533.100
Investments in associated companies		528.807	306.543
Investments in other companies	14	1.421.977	406.501
Other investment		150.000	0
Non-current assets		81.099.461	78.016.978
Current assets			
Inventories	15	841.939	765.117
Accounts receivable		5.755.229	3.887.794
Other receivables		156.729	120.645
Cash and cash equivalents		1.053.380	464.870
Current assets		7.807.277	5.238.426
Assets		88.906.738	83.255.404
Equity and Liabilities			
Equity			
Share capital	16	30.921.744	30.921.636
Statutory reserve		398.429	403.209
Translation reserve		130.770	(14.280)
Retained earnings		(2.110.352)	1.470.713
Equity holders of the parent		29.340.591	32.781.278
Minority interest		106.282	19.775
Total equity		29.446.873	32.801.053
Non-current liabilities			
Borrowings	18	50.747.020	44.082.463
Deferred tax liabilities		156.224	519.417
Non-current liabilities		50.903.244	44.601.880
Current liabilities			
Bank loans		185.181	0
Accounts payable		2.246.766	2.237.988
Current maturities of borrowings	18	3.430.293	2.038.518
Other current liabilities		2.694.381	1.575.965
Current liabilities		8.556.621	5.852.471
Total liabilities		59.459.865	50.454.351
Total equity and liabilities		88.906.738	83.255.404
Mortgages and guarantees	22,23		

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Consolidated Cash Flow Statement
for the year 2006

	Notes	2006	2005
Cash flow from operating activities			
Operating profit		4.605.515	3.606.233
Operational items not affecting cash flow:			
Depreciation and amortization		3.837.204	3.847.409
(Gain) loss on sale of fixed assets		(17.466)	8.525
Changes in current assets and liabilities		229.027	56.822
Cash generated by operation		8.654.280	7.518.989
Interest income received during the year		238.663	577.797
Payments of taxes during the year		(197.485)	(429.244)
Interest expenses paid during the year		(1.989.148)	(1.477.306)
Net cash from operating activities		6.706.310	6.190.236
Investing activities			
Investment in property, plant and equipment	9	(2.117.310)	(4.317.848)
Investment in intangible assets	11	(453.304)	(482.744)
Proceeds from sale of property, plant and equipment		56.062	46.525
Changes in other investments		23.291	697.302
Changes in investment in other companies	14	(2.692.121)	1.309.374
Investing activities		(5.183.382)	(2.747.391)
Financing activities			
Dividend paid		(630.907)	(5.701.894)
New loans raised		1.892.176	11.441.118
Repayments of borrowings		(2.444.183)	(10.526.863)
Bank loans, increase (decrease)		324.033	(940.139)
Repurchase of own shares		(232.834)	(75.785)
Financing activities		(1.091.715)	(5.803.563)
Increase (decrease) in cash and cash equivalents		431.213	(2.360.718)
Effects of exchange rate changes on the balance of cash		157.297	0
Cash and cash equivalents at the beginning of year		464.870	2.825.588
Cash and cash equivialents at the end of the year		1.053.380	464.870

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Consolidated Statement of Changes in Equity
for the year ended 31 December 2006

	Share capital	Statutory reserve	Translation reserve	Revaluation reserves	Retained earnings	Equity holders of the parent	Minority interest	Total equity
Total equity 1.1.2005	7.036.445	2.345.482	(25.163)	512.561	7.599.386	17.468.711	31.832	17.500.543
Dividend paid					(6.332.803)	(6.332.803)		(6.332.803)
Profit for the year					4.019.750	4.019.750	12.340	4.032.090
Change in minority interest							(24.397)	(24.397)
Translation reserve			(33.134)			(33.134)		(33.134)
Realized gain on investments				(512.561)		(512.561)		(512.561)
Merger	23.893.357	(2.345.482)	44.017		(3.412.411)	18.179.481		18.179.481
Repurchase of own stock	(8.166)					(8.166)		(8.166)
Provision for statutory reserve		403.209			(403.209)	0		0
Total equity 31.12.2005	30.921.636	403.209	(14.280)	0	1.470.713	32.781.278	19.775	32.801.053
Total equity 1.1.2006	30.921.636	403.209	(14.280)	0	1.470.713	32.781.278	19.775	32.801.053
Loss for the year					(3.581.065)	(3.581.065)	21.339	(3.559.726)
Change in minority interest						0	65.168	65.168
Translation reserve			145.050			145.050		145.050
Changes in own stock	108	(4.780)				(4.672)		(4.672)
Total equity 31.12. 2006	30.921.744	398.429	130.770	0	(2.110.352)	29.340.591	106.282	29.446.873

Síminn hf. - Consolidated Financial Statement 2006 8 All amounts are in thousands of Icelandic kronas

Notes

Significant accounting principles

The consolidated financial statements of Síminn hf. incorporate the financial statements of the Company and its subsidiaries.

(a) ***Statement of compliance***

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by EU.

(b) ***New and revised Standards***

At the date of authorization of these financial statements, the following Standards were in issue but not effective:

	Effective date:
- IFRS 7, Financial Instruments: Disclosures	1. January 2007
- IFRS 8, Operating Segments	1. January 2009

At the date of authorisation of these financial statements, the following Interpretations were in issue but not effective:

	Effective Date: Annual periods beginning:
- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	On or after 1. March 2006
- IFRIC 8, Scope of IFRS 2	On or after 1. May 2006
- IFRIC 9, Reassessment of Embedded Derivatives	On or after 1. June 2006
- IFRIC 10, Interim Financial Reporting and Impairment	On or after 1. November 2006
- IFRIC 11, IFRS 2: Group and Treasury Share Transactions	On or after 1. March 2007
- IFRIC 12, Service Concession Arrangements	On or after 1. January 2008

(c) ***Basis of preparation***

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out below.

Reporting consolidated statements in accordance with International Financial Reporting Standards (IFRS) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period and future periods.

(d) ***Basis of consolidation***

i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of the entities so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

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ii) Associates

Associates are those entities for which the Group has significant influence, but not control, over the financial and operating policies. The Consolidated Financial Statements include the Group's share of the total recognized gains and losses of associates, from the date that significant influence commences until the date that significant influence ceases. If the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

iii) Transactions eliminated on consolidation

Intragroup balances, businesses and unrealized gains arising from intragroup transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealized losses are eliminated in the same way as unrealized gains, but to the extent that there is no evidence of impairment.

iv) The accounting policies have been applied consistently throughout the Group.

(e) ***Foreign currency***

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Currency Units, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity. In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group’s accounting policies in respect of such derivative financial instruments).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group’s foreign operations (including comparatives) are expressed in Currency Units using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group’s translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(f) ***Derivative financial instruments***

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk. Deriviative financial instruments are recognized initially at cost. Subsequent to initial recognition, deriviative financial instruments are stated at fair value and the gain or loss is recognized in profit or loss. Gain or loss on hedging instruments is recognized in profit or loss.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

(g) ***Hedging***

When a derivative financial instrument is designed as a hedge of a recognized asset or liability, hedge accounting is not applied. Gain or loss on the hedging instrument is recognized in profit or loss.

(h) ***Property, plant and equipment***

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefit embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other cost is recognized in profit or loss as an expense as incurred.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful life is as follows:

	Useful life
Telecommunication equipment	4 – 18 years
Buildings	15 - 33 years
Machinery and equipment	3 – 10 years
Vehicles	5 – 10 years

The residual value is reassessed annually.

Notes

(i) ***Intangible assets***

i) Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortized but is tested annually for impairment.

ii) Other intangible assets

Intangible assets other than goodwill acquired by the Group are stated at cost less accumulated amortization. Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives as follows:

Software	3-7 years
Contractual rights	3 years
Other	3 years

(j) ***Investment***

Investment in other Companies is stated at fair value when available, with any gain or loss recognized directly in equity. When these investment are sold, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. When fair value is not available investment is stated at cost.

Bonds are recorded at cost less any impairment losses. Interest income on bonds is recognized in profit or loss, using the effective interest method.

(k) ***Trade and other receivables***

Trade and other receivables are stated at their cost less impairment losses.

Current maturities of bonds are included in other receivables in the Balance Sheet.

(l) ***Inventories***

Inventories in the Balance Sheet include goods for sale, supplies, work in process and material to be viewed in television. Goods for sale are stated at lower of cost and net realizable value. Net realizable value is estimated selling price in the ordinary course of business, less the estimated selling expenses. Supplies are stated at last purchase price. Material to be viewed in television is stated at cost.

Notes

(m) ***Cash and cash equivalents***

Cash and cash equivalents consist of cash, bank deposits and marketable securities. Marketable securities are short-term bonds which may or may not be listed and can be sold within three months. Marketable securities are valued at their fair value.

(n) ***Impairment***

The carrying amounts of the Group's assets, other than inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

i) Calculation of recoverable amount

The recoverable amount of investments in securities and other receivables is calculated at present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

ii) Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

(o) ***Interest-bearing borrowings***

Interest-bearing debts are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in profit or loss over the period of the debt on an effective interest basis.

(p) ***Provisions***

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(q) ***Account payable***

Account payable are recognized at cost.

(r) ***Revenue***

Revenue from telecommunication services is recognized in profit or loss when the service is performed. Revenue from the sale of goods is recognized in profit or loss when the significant risks and rewards of ownerships have been transferred to the customer. Revenue from advertising in television are recognized in profit or loss when the advertisements are shown. They are recognized as revenue when first published although the same advertisement can be shown more than once because of reruns of television shows. The same rule is applied to sponsorship of particular television shows. No revenue is recognized if there are significant uncertainties regarding collection of the due revenue or on the possibility of goods being returned.

Notes

(s) ***Expenses***

i) Cost of sales and operating expenses
Cost of sales according to the income statement consist of cost of operating telecommunication systems, direct television broadcasting expenses and cost of goods sold, including related labor cost and related depreciation on property, plant and equipments.

Operating expenses according to the income statement consist of selling expenses, customer services, administration, impairment losses on receivables and other costs.

ii) Operating lease payments
Payments under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

iii) Net financing cost
Net financing cost comprises interest on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange rate gains and losses on hedging instruments that are recognized in profit or loss.

Interest income is recognized in profit or loss as it accrues, using the effective interest method. Dividend income is recognized in profit or loss when dividend is announced.

(t) ***Income Tax***

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and differences relating to investments in subsidiaries to the extent that the temporary differences will probably not reverse in the foreseeable future.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

(u) ***Segment reporting***

A segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments. Pricing of sale of goods and services between segments is decided by the Company on the basis of arms length transactions.

Notes

Segment Reporting

1. The Group's operation by segments is specified as follows:

	Telecommunications	Other	Eliminations	Total
Net sales	22.239.414	3.352.445	(561.732)	25.030.127
Cost of sales	(11.224.989)	(2.710.238)	263.858	(13.671.369)
Gross profit	11.014.425	642.207	(297.874)	11.358.758
Other operating income	367.014	22.105	-124106	265.013
Operating expense	(6.588.729)	(851.507)	421.980	(7.018.256)
Operating profit	4.792.710	(187.195)	0	4.605.515
Depreciation included above	3.614.402	222.802	0	3.837.204
Operating profit (EBITDA)	8.407.112	35.607	0	8.442.719
Unallocated assets				88.906.738
Consolidated total assets				88.906.738

Operating revenue

2. Operating revenue for the Group specifies as follows:

	2006	2005
General telephone system	5.872.634	6.054.070
Mobile systems	9.910.141	8.127.795
Data communications	3.343.025	2.862.288
Network	1.411.998	1.311.266
Other	4.757.342	3.686.013
Total revenue according to the Consolidated Income Statement	25.295.140	22.041.432

Personnel

3. The number of employees was as follows:

	2006	2005
Average number of employees, adjusted for full-time employment	1.628	1.273
Number og employees at year-end	1.767	1.370

4. Salaries and related expenses are specified as follows:

Salaries	5.886.411	5.202.333
Payroll taxes	1.004.072	828.523
	6.890.483	6.030.856

5. Salaries paid to the Company's Board of Directors, CEO and other senior Directors of the Company amounted to ISK 270 million. No options or warrants have been made with Siminn's employes

Financial income and expenses

6. Financial income and expenses specify as follows:

	2006	2005
Interest earned	241.735	523.455
Income from investments	600.694	878.886
Interest and indexation expenses	(4.006.240)	(1.470.873)
Exchange (loss) gains	(5.772.456)	760.746
Total financial income and expenses	(8.936.267)	692.214

Síminn hf. - Consolidated Financial Statement 2006 15 All amounts are in thousands of Icelandic kronur

Notes

Income tax expense

7. Reconciliation of effective tax rate

	2006		2005	
Profit before tax		(4.337.187)		(4.337.187)
Income tax using the corporation tax rate	18,0%	(780.694)	18,0%	768.188
Effects of associated companies	0,0%	1.158	0,1%	5.532
Effects of tax losses utilized	0,0%	0	-0,4%	(16.958)
Tax exempt revenues	0,0%	0	-3,2%	(135.000)
Dividend	-0,1%	2.734	0,0%	0
Other changes	0,1%	(3.995)	-0,2%	(7.028)
Effective tax rate	-0,1%	3.336	-8,9%	(379.112)
	17,9%	(777.461)	5,5%	235.622

Earnings per share

8. Basic earnings per share is compared with profit for the period attributable to equity holders of the parent and weighted average number of ordinary shares of the period and shows the earnings per share.

Basic earnings per share:	2006	2005
(Loss) profit for the period attributable to equity holders of the parent	(3.581.065)	4.019.749
Weighted average number of ordinary shares	30.849.822	18.982.840
(Loss) earnings per share	(0,12)	0,21

Property, plant and equipment

9. Property, plant and equipment is specified as follows:

	Telecommuni-cations equipment	Buildings and land	Machinery and equipment	Total
Net book value 1.1.2005	13.336.988	3.731.767	822.219	17.890.974
Additions during the year	3.698.059	209.265	410.524	4.317.848
Sales and disposals during the year		(22.078)	(7.938)	(30.016)
Depreciation during the year	(2.952.113)	(129.394)	(326.465)	(3.407.972)
Total value 31.12.2005	14.082.934	3.789.560	898.340	18.770.834
Total value 31.12.2005	14.082.934	3.789.560	898.340	18.770.834
Reclassified	(62.689)		7.660	(55.029)
Additions during the year	1.674.766	73.341	369.203	2.117.310
Additions through business combinations			64.310	64.310
Net foreign currency exchange differences			2.854	2.854
Revaluation		450.947		450.947
Sales and disposals during the year		(9.996)	(36.597)	(46.593)
Depreciation during the year	(2.981.328)	(150.587)	(329.791)	(3.461.706)
Net book value 31.12.2006	12.713.683	4.153.265	975.979	17.842.927

The official real estate valuation on the Company's buildings and land amounted to ISK 3,627 million at year-end 2006 and the insurance value amounted to ISK 4,767 million at the same time. The insurance value of machinery and equipment amounted to ISK 11,838 million.

10. Depreciation are specified as follows:

	2006	2005
Cost of sales	(3.148.280)	(3.103.117)
Operating expenses	(313.426)	(304.855)
Total	(3.461.706)	(3.407.972)

Síminn hf. - Consolidated Financial Statement 2006 16 All amounts are in thousands of Icelandic kronur

Notes

Intangible assets

11. Changes in intangible assets during the year are as follows:

	Goodwill	Software	Contractual-rights	Total
Balance at 31.12.2005	78.267	759.041	132.870	970.178
Effects of merger	57.604.967			57.604.967
Additions during the year	245.254	237.490		482.744
Sold during the year		(246)		(246)
Moved to current assets			(85.106)	(85.106)
Amortizations during the year	(129.097)	(310.340)		(439.437)
	57.799.391	685.945	47.764	58.533.100
Balance at 31.12.2005	57.799.391	685.945	47.764	58.533.100
Additions during the year	351.385	166.495	25.000	542.880
Additions through business combinations	2.391.368			2.391.368
Net foreign currency exchange differences	231.850			231.850
Reclassified	3.413	55.225	86.843	145.481
Revaluation	(313.431)			(313.431)
Amortizations during the year	(2.340)	(282.994)	(90.164)	(375.498)
Balance at 31.12.2006	60.461.636	624.671	69.443	61.155.750

Subsidiaries

12. Six subsidiaries are included in the Consolidated Financial Statements. In addition Anza hf. owns one subsidiary that is also included. Siminn´s TV operation was sold from Síminn to subsidiary Skíma and at same time the name of the company was changed to Skjárinn miðlar. Two subsidiaries were incorporated during the year; Fjarskip witch provides maritime telecommunication services to the Icelandic fishing industry and On-wave's witch will provide GSM service onboard ferries and cruisers sailing in international waters. The subsidiaries that are included in the Consolidated Financial Statements are the following:

	Ownership
Anza hf.	97,4%
Sirius	92,0%
Upplýsingaveitur ehf.	100,0%
Skjárinn miðlar ehf.	100,0%
Tæknivörur ehf.	100,0%
On-wave´s S.ä.r.l.	100,0%
Fjarskip ehf.	75,0%

Associates

13. The Group's share in the operating result of its associated companies was a loss of ISK 6 million. The share in net equity amounted to ISK 528 million at the end of the year.

	Ownership %	Nominal value	Book value
Eignarhaldsfélagið Farice ehf.	37,1%	395.477	341.851
Farsímagreiðslur ehf.	40,5%	28.350	16.868
Hið íslenska númeraflutningsfélag ehf.	50,0%	4.000	2.621
Malmator	50,0%	-	2.985
Nordisk Mobil Ísland ehf.	50,0%	250	250
Stefja ehf.	62,7%	13.418	60.722
Titan upplýsingatækni ehf	33,3%	10.000	30.000
Þræðir ehf.	33,3%	167	73.510
			528.807

Síminn hf. - Consolidated Financial Statement 2006 17 All amounts are in thousands of Icelandic kronur

Notes

Investment

14. At the end of the year the Company owned shares in four foreign and eleven domestic companies where the ownership was less than 20%. Ownership in Carrera Ltd. amounted to ISK 595 million. During the year the company bought shares in Nordisk Mobiltelefon AB for 783 million. The company also bought shares in Kögun for 3.302 million. The shares were sold with a profit of ISK 598 million. Investment in other companies is stated at cost less impairment losses.

Inventories

15. Inventories are specified as follows:

	2006	2005
Finished goods	88.516.288	82.945.183
Work in progress	151.282	24.446
TV programs for screening	239.168	285.775
Inventory total	88.906.738	83.255.404

Share capital

16. Share capital as at 31 December 2006 amounted to 30.930 million. Own shares amounted to 8 million.

Non-current liabilities

17. The company issued CPI-indexed bullet bonds for 14.000 million on the 2 January 2006 and they have all been sold. The bonds have a fixed 6% interest rate with a maturity date 2 April 2014. The bonds are registered on the Iceland Stock Exchange with the symbol SIMI 06 1. Size limit according to the agreement is 15.000 million.

Non-current liabilities:

18. Borrowings are specified as follows by currency denominations:

Loans in USD	11.057.978
Loans in EUR	6.104.840
Loans in GBP	3.872.756
Loans in JPY	4.975.842
Loans in CHF	9.978.060
	38.378.820
Loans in ISK	15.798.493
	54.177.313
Current maturities of borrowings	(3.430.293)
Total borrowings	50.747.020

19. Annual maturities of borrowings are specified as follows:

In the year 2007	3.430.294
In the year 2008	3.097.446
In the year 2009	3.393.868
In the year 2010	3.128.631
In the year 2011	3.353.793
Subsequent payments	37.773.281
Total borrowings, including current maturities	54.177.313

Síminn hf. - Consolidated Financial Statement 2006 18 All amounts are in thousands of Icelandic kronur

Notes

20. Deferred tax for the Group amounted to ISK 156 million and specifies as follows:

Deferred tax at the beginning of the year	519.417
Additions through business combinations	486
Revaluation	429.570
Income tax posted to the income statement	(777.461)
Income tax payable next year	(15.788)
Deferred tax liability at the end of the year	156.224

The deferred tax liability is allocated as follows:

Property and equipment	732.547
Accounts receivable	(14.616)
Inventories	1.616
Other items	(563.323)
	156.224

21. Subsidiary Anza incorporated a company Sirius IT Holding A/S witch then bought all operation related to providing IT service to the public sector in Denmark, Norway and Sweden from the company TietoEnator. The price has not been finalized because of a disagreement about the purchase price. According to IFRS the company has 12 month til finalize the figures.

Non-current asset	64.310
Intangible assets	44.202
Accounts receivable	1.111.764
Work in progress	210.111
Cash	365.201
Deferred tax liabilities	(486)
Other current liabilities	(131.190)
Accounts payable	(1.182.610)
Net assets	497.364
Goodwill	2.347.166
Purchase price	2.844.529

Purchase price specifies as follows:

Paid with cash	2.844.529
Less cash at hand	(365.201)
Total paid cash according to cash flow statement	2.479.328

Síminn hf. - Consolidated Financial Statement 2006 19 All amounts are in thousands of Icelandic kronur

Notes

Mortgages and guarantees

22. Assets of the Group are mortgaged to guarantee loans, which amount to ISK 35,923 m.kr. at the end of the year 2006.

23. The Group has guaranteed loans for Farice hf. that are nominated in foreign currencies and amounted to ISK 928 million at the end of the year. The Group's commitments on the lease of a submarine telecommunications cable amount to ISK 107 million annually until 2012. The Group's commitments on account of housing leases amount to ISK 79 million annually until 2018.

Financial ratios

24. Five year historical information in ISK millions.

	2006	2005	2004	2003	2002
Income statement					
Operating revenue	25.295	22.041	20.419	18.761	17.958
Operating expenses	(16.853)	(14.588)	(12.896)	(11.381)	(10.849)
Operating profit (EBITDA)	8.442	7.453	7.523	7.380	7.109
Depreciation	(3.462)	(3.408)	(3.208)	(4.428)	(4.568)
Amortization	(375)	(439)	(876)	(36)	(73)
Profit before financial income	4.605	3.606	3.439	2.916	2.468
Net financial income (expenses)	(8.936)	693	511	(214)	141
Share of profit (loss) in associates	(6)	(31)	(90)	(25)	(1)
Profit before taxes	(4.337)	4.268	3.860	2.677	2.608
Taxes	777	(236)	(769)	(534)	(464)
Minority interest	(21)	(12)	(12)	2	17
Profit for the year	(3.581)	4.020	3.079	2.145	2.161
Balance sheet:					
Non-current assets.............................	81.100	78.017	20.784	20.931	22.414
Current assets...................................	7.807	5.238	8.408	7.662	9.217
Total assets	88.907	83.255	29.192	28.593	31.631
Equity..	29.447	32.801	17.501	16.058	16.049
Non-current liabilities..........................	50.903	44.602	4.755	7.015	11.143
Current liabilities................................	8.557	5.852	6.936	5.520	4.439
Total equity and liabilities	88.907	83.255	29.192	28.593	31.631

25. Financial ratios:

Income Statement:

Operating profit (EBITDA)......................	33,4%	33,8%	36,8%	39,3%	39,6%
Profit before financial income (EBIT)........	18,2%	16,4%	16,8%	15,5%	13,7%
Return on equity..................................	-10,9%	19,6%	21,1%	14,8%	15,2%

Balance Sheet:

Current ratio..................................	0,91	0,90	1,21	1,39	2,08
Equity ratio....................................	0,33	0,39	0,59	0,56	0,51
Internal value of Capital shares.........	0,95	1,06	2,41	2,28	2,28

26. The consolidated financial statement were approved by the board of directors and authorized for issue on the 8 February 2007.

Síminn hf. - Consolidated Financial Statement 2006 20 All amounts are in thousands of Icelandic kronur

SÍMINN'S CONSOLIDATED FINANCIAL STATEMENTS 2005

Contents

Endorsement by the Board of Directors and the CEO

The Consolidated Financial Statements consist of Consolidated Statements for Síminn hf. and its subsidiaries.

The Consolidated Financial Statements of Síminn hf. (Iceland Telecom) have for the first time been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The main effect of the transition to IFRS's is that the book value of the shareholders' equity is increased by ISK 452 million. The effects of the changes are further explained in the notes to the Consolidated Financial Statements.

Profit for the year, according to the Income Statement amounted to ISK 4.032 million. Total assets amounted to 83.255 million at the end of the year and total equity amounted to 32.801 million at the end of the year. The Annual General Meeting held on 23 February, 2005 agreed a payment of dividend to shareholders at the amount of 6.333 million to be paid on 20 April, 2005 which has been realized in the shareholders' equity. Otherwise the board of directors refers to the Consolidated Financial Statements regarding changes in the Company's net worth and disposal of profit.

The Company has come to an agreement with Landsvirkjun to buy a quarter of shares in Fjarski hf. and also to buy a share in a fibre optic cable from Fjarski hf. Due to consent from the Competition Authority no amounts have been entered in the Consolidated Financial Statements. In February 2006 the company bought 27% of shares in Kögun hf.

During the year the Icelandic State sold all of its shares in Síminn hf. to Skipti ehf. Skipti ehf., Íslenska sjónvarpsfélagið hf. and Landssími Íslands hf. were merged under the name of Síminn hf. as of 30 June 2005. According to the merger equity in Síminn was raised from ISK 7.036 million to ISK 30.930 million.

At the year-end the number of shareholders were 1.072. Ath the beginning of the year there were 1.255 shareholders. At year-end two shareholders hold more than 10% of the shares, Exista B.V. with 43,7% of the shares and Kaupthing Banki hf. with 29,4% of the shares. The Board of Directors proposes that no dividend will be paid out to the shareholders.

The Board and CEO of Síminn hf. are of the opinion that the Consolidated Financial Statements contain all the information necessary to evaluate the financial position of the Group on 31 December 2005, the operational result for the year 2005 and the financial developments during the year. The Board of Directors and the CEO of Síminn hf. hereby confirm the Company's Consolidated Financial Statements for the year 2005 with their signatures.

Reykjavík, 28 February 2006.

Board of Directors:

Lýður Guðmundsson, chairman

Rannveig Rist

Panikos Katsouris

Gísli Hjálmtýsson

Sigurgeir Brynjar Kristgeirsson

CEO:

Brynjólfur Bjarnason

Auditors´ report

To the Board of Directors and shareholders of Síminn hf.

We have audited the accompanying Consolidated Balance sheet of Síminn hf. as of 31 December 2005 and the related Consolidated Statements of Income, Cash flows and changes in equity for the year then ended. These Consolidated Financial Statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of the Group as of 31 December 2005 and of the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 28 February 2006.

Deloitte hf.

Consolidated Income Statement for the year 2005

	Notes	1 October - 31 December 2005	1 October - 31 December 2004	1 January - 31 December 2005	1 January - 31 December 2004
Net sales	3	5.668.625	5.031.675	21.641.489	19.803.120
Cost of sales		(3.169.260)	(2.448.286)	(11.561.970)	(9.938.555)
Gross profit		2.499.365	2.583.389	10.079.519	9.864.565
Other operating income	3	87.695	131.661	399.943	615.930
Operating expenses		(1.786.938)	(2.292.258)	(6.873.229)	(7.041.797)
					0
Operating profit		800.122	422.792	3.606.233	3.438.698
					0
Financial income (expenses)	7	(338.978)	386.261	692.214	510.648
Share of profit (loss) in associates		(19.915)	7.504	(30.736)	(89.524)
Profit before tax		441.229	816.557	4.267.711	3.859.822
Income tax	8	320.380	(183.312)	(235.622)	(768.755)
Profit for the year		761.609	633.245	4.032.089	3.091.067
Attributable to:					
Equity holders of the parent		757.252	625.748	4.019.749	3.079.361
Minority interest		4.357	7.497	12.340	11.706
		761.609	633.245	4.032.089	3.091.067
Earnings per share:					
Earnings per share	9	0,02	0,09	0,21	0,44

Síminn hf. - Consolidated Financial Statements 2005 5 All amounts are in thousands of Icelandic kronas

Consolidated Balance Sheet at 31 December 2005

	Notes	2005	2004
Assets			
Non-current assets			
Property, plant and equipment	10	18.770.834	17.890.975
Intangible assets	12	58.533.100	970.178
Investments in associated companies	14	306.543	370.411
Investments in other companies	15	406.501	1.529.953
Other investments		0	21.749
Non-current assets		78.016.978	20.783.266
Current assets			
Inventories		765.117	589.664
Accounts receivable		3.887.794	3.905.326
Other receivables		120.645	1.087.787
Cash and cash equivalents		464.870	2.825.588
Current assets		5.238.426	8.408.365
Assets		83.255.404	29.191.631
Equity and Liabilities			
Equity			
Share capital		30.921.636	7.036.445
Statutory reserve		403.209	2.345.482
Translation reserve		(14.280)	(25.163)
Revaluation reserves		0	512.561
Retained earnings		1.470.712	7.599.386
Equity holders of the parent		32.781.277	17.468.711
Minority interest		19.775	31.832
Equity		32.801.052	17.500.543
Non-current liabilities			
Borrowings	17	44.082.463	4.361.044
Deferred tax liabilities	16	519.417	394.430
Non-current liabilities		44.601.880	4.755.474
Current liabilities			
Bank loans		0	940.139
Accounts payable		2.237.988	1.585.892
Current maturities of borrowings	18	2.038.518	2.424.702
Other current liabilities		1.575.966	1.984.881
Current liabilities		5.852.472	6.935.614
Total liabilities		50.454.352	11.691.088
Total equity and liabilities		83.255.404	29.191.631
Mortgages and guarantees	19,20		

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Consolidated Cash Flow Statement 2005

	Notes	2005	2004
Cash flow from operating activities			
Operating profit		3.606.233	3.438.698
Operational items not affecting cash flow:			
Depreciation and amortization		3.847.409	4.084.520
Gain on sale of fixed assets		(801.267)	(384.730)
Changes in current assets and liabilities		1.525.724	(262.062)
Cash generated by operation		8.178.099	6.876.426
Interest income received during the year		577.797	409.041
Payments of taxes during the year		(429.244)	(355.853)
Interest expenses paid during the year		(1.477.306)	(410.079)
Net cash from operating activities		6.849.346	6.519.535
Investing activities			
Investment in property and equipment	10	(4.317.848)	(2.769.878)
Investment in intangible assets	12	(482.744)	(338.191)
Proceeds from sale of property and equipment		46.525	332.575
Changes in other investments		38.192	615.297
Changes in investment in other companies	15	1.309.374	(512.128)
Investing activities		(3.406.501)	(2.672.325)
Financing activities			
Dividend paid		(5.701.894)	(1.899.841)
New loans raised		11.441.118	0
Repayments of borrowings		(10.526.863)	(2.746.022)
Bank loans, (decrease) increase		(940.139)	1.347.722
Changes in minority interest		(75.785)	(6.813)
Financing activities		(5.803.563)	(3.304.954)
(Decrease) increase in cash and cash equvialents		(2.360.718)	542.256
Cash and cash equivialents at the beginning of year		2.825.588	2.283.332
Cash and cash equivialents at the end of the year		464.870	2.825.588

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Consolidated Statement of Changes in Equity for the year 2005

	Notes	Share capital	Statutory reserve	Translation reserve	Revaluation reserves	Retained earnings	Equity holders of the parent	Minority interest	Total equity
Total equity 1.1.2004		7.036.445	2.345.482			6.676.151	16.058.078	103.258	16.161.336
Effects of transition to IFRSs	21					(38.776)	(38.776)	(25.191)	(63.967)
Total equity 1.1.2004, adjusted		7.036.445	2.345.482	0	0	6.637.375	16.019.302	78.067	16.097.369
Dividend paid						(2.110.934)	(2.110.934)		(2.110.934)
Change in minority interest								(47.047)	(47.047)
Profit for the year						3.069.942	3.069.942	812	3.070.754
Translation reserve				(25.163)			(25.163)		(25.163)
Total equity 31.12.2004		7.036.445	2.345.482	(25.163)	0	7.596.383	16.953.147	31.832	16.984.979
Total equity 31.12.2004		7.036.445	2.345.482	(25.163)	0	7.596.383	16.953.147	31.832	16.984.979
Effects of transition to IFRSs	21				512.561	3.003	515.564		515.564
Total equity 31.12.2004, adjusted		7.036.445	2.345.482	(25.163)	512.561	7.599.386	17.468.711	31.832	17.500.543
Total dividend						(6.332.803)	(6.332.803)		(6.332.803)
Profit for the year						4.019.749	4.019.749	12.340	4.032.089
Change in minority interest							0	(24.397)	(24.397)
Translation reserve				(33.134)			(33.134)		(33.134)
Realized gain on investments	15				(512.561)		(512.561)		(512.561)
Merger		23.893.357	(2.345.482)	44.017		(3.412.411)	18.179.481		18.179.481
Repurchase of own stock		(8.166)					(8.166)		(8.166)
Provision for statutory reserve			403.209			(403.209)	0		0
Total equity 31.12. 2005		30.921.636	403.209	(14.280)	0	1.470.712	32.781.277	19.775	32.801.052

APPENDIX

Síminn hf. - Consolidated Financial Statements 2005 8 All amounts are in thousands of Icelandic kronas

Notes

Significant accounting principles

The Consolidated Financial Statements of Síminn hf. for the year 2005 comprise the Consolidated Financial Statements of the Company and its subsidiaries, Anza hf., Tæknivörur ehf., Skíma ehf. and Upplýsingaveitur ehf. (together referred to as the "Group"). The ownership in Stefja hf. was 60,8% at the end of the year. The Group intends to decrease its ownership shortly and therefore Stefja hf. is not included in the Consolidated Financial Statements. However the equity method is used to account for the effect of Stefja hf. on the Group´s income and financial position. During the year a decision was reached to merge Íslenskt sjónvarp ehf., Fjárfestingafélagið Brattabrú ehf. and Íslenska sjónvarpsfélagið hf. from 1 January 2005 under the name of Íslenska sjónvarpsfélagið hf. The Companies were included in the Consolidated Financial Statements at year-end 2004 and their merger does not affect the Consolidated Financial Statements now. Later during the year a decision was reached to merge Íslenska sjónvarpsfélagið hf., Skipti ehf. and Landsími Íslands hf. from 30 June 2005 under the name of Síminn hf.

(a) *Statement of compliance*

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which were approved by the International Accounting Standards Board (IASB). These are the Group´s first IFRS Annual Financial Statements. The conversion is made in accordance with IFRS 1 First-time Adoption of Financial Reporting Standards.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 21. This note includes reconciliation of equity and profit or loss for comparative periods reported under previous GAAP to those reported under IFRSs.

(b) *Basis of preparation*

The Consolidated Financial Statements are presented in thousands of Icelandic kronur (ISK). They are prepared on a historical cost basis except for financial instruments held for trading which are stated at their fair value.

Reporting Consolidated Statements in accordance with International Financial Reporting Standards (IFRS) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period and future periods.

The preperation of the Consolidated Financial Statements in accordance with IFRS resulted in changes to the accounting policies as compared with the Company´s most recent Annual Financial Statements prepared under Icelandic GAAP. The accounting policies set out below have been applied consistently to the period presented in these Consolidated Financial Statements. They have also been applied in preparing an opening IFRS balance sheet at 1 January 2004 for the purpose of the transition to IFRSs.

The accounting policies have been applied consistently throughout the Group.

Notes

(c) ***Basis of consolidation***

i) *Subsidiaries*
Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of the entities so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

ii) *Associates*
Associates are those entities for which the Group has significant influence, but not control, over the financial and operating policies. The Consolidated Financial Statements include the Group´s share of the total recognised gains and losses of associates, from the date that significant influence commences until the date that significant influance ceases. If the Group´s share of losses exceeds its interest in an associate, the Group´s carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

iii) *Transactions eliminated on consolidation*
Intragroup balances, businesses and unrealized gains arising from intragroup transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealized losses are eliminated in the same way as unrealized gains, but to the extent that there is no evidence of impairment.

(d) ***Foreign currency***

Transactions in foreign currencies are stated at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are stated at the rate ruling at the end of the year. Foreign exchange differences arising on translation are recognised in profit or loss.

(e) ***Derivative financial instruments***

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk. Deriviative financial instruments are recognised initially at cost. Subsequent to initial recognition, deriviative financial instruments are stated at fair value and the gain or loss is recognised in profit or loss. Gain or loss on hedging instruments is recognised in profit or loss.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

(f) ***Hedging***

When a derivative financial instrument is designed as a hedge of a recognised asset or liability, hedge accounting is not applied. Gain or loss on the hedging instrument is recognised in profit or loss.

(g) ***Property, plant and equipment***

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as seperate items of propery, plant and equipment.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefit embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other cost is recognised in profit or loss as an expense as inccurred.

Notes

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful life is as follows:

	Useful life
Telecommunication equipment	4 – 17 years
Buildings	15 - 33 years
Machinery and equipment	3 – 10 years
Vehicles	5 – 10 years

The residual value is reassessed annually.

(h) ***Intangible assets***

i) Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment.

ii) Other intangible assets

Intangible assets other than goodwill acquired by the Group are stated at cost less accumulated amortisation. Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives as follows:

Software	3-7 years
Contractual rights	3 years
Other	3 years

(i) ***Investment***

Investment in other Companies is stated at fair value when available, with any gain or loss recognised directly in equity. When these investment are sold, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. When fair value is not available investment is stated at cost.

Bonds are recorded at cost less any impairment losses. Interest income on bonds is recognised in profit or loss, using the effective interest method.

(j) ***Trade and other receivables***

Trade and other receivables are stated at their cost less impairment losses.

Current maturities of bonds are included in other receivables in the Balance Sheet.

Notes

(k) ***Inventories***

Inventories in the Balance Sheet include goods for sale, supplies and material to be viewed in television. Goods for sale are stated at lower of cost and net realisable value. Net realisable value is estimated selling price in the ordinary course of business, less the estimated selling expenses. Supplies are stated at last purchase price. Material to be viewed in television is stated at cost.

(l) ***Cash and cash equivalents***

Cash and cash equivalents consist of cash, bank deposits and marketable securities. Marketable securities are short-term bonds which may or may not be listed and can be sold within three months. Marketable securities are valued at their fair value.

(m) ***Impairment***

The carrying amounts of the Group´s assets, other than inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset´s recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

i) *Calculation of recoverable amount*
The recoverable amount of investments in securities and other receivables is calculated at present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

ii) *Reversals of impairment*
An impairment loss in respect of goodwill is not reversed.

In respect of other assests, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

(n) ***Interest-bearing borrowings***

Interest-bearing debts are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the debt on an effective interest basis.

(o) ***Provisions***

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(p) ***Account payable***

Account payable are recognised at cost.

Notes

(q) ***Revenue***

Revenue from telecommunication services is recognised in profit or loss when the service is performed. Revenue from the sale of goods is recognised in profit or loss when the significant risks and rewards of ownerships have been transferred to the customer. Revenue from advertising in television are recognised in profit or loss when the advertisements are shown. They are recognised as revenue when first published although the same advertisment can be shown more than once because of reruns of televison shows. The same rule is applied to sponsorship of particular televison shows. No revenue is recognised if there are significant uncertainties regarding collection of the due revenue or on the possibility of goods being returned.

(r) ***Expenses***

i) *Cost of sales and operating expenses*
Cost of sales according to the income statement consist of cost of operating telecommunication systems, direct television broadcasting expenses and cost of goods sold, including related labour cost and related depreciation on property, plant and equipments.

Operating expenses according to the income statement consist of selling expenses, customer services, administration, impairment losses on receivables and other costs.

ii) *Operating lease payments*
Payments under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

iii) *Net financing cost*
Net financing cost comprises interest on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange rate gains and losses on hedging instruments that are recognised in profit or loss.

Interest income is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in profit or loss when dividend is announced.

(s) ***Income Tax***

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

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

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and differences relating to investments in subsidiaries to the extent that the temporary differences will probably not reverse in the forseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(t) ***Segment reporting***

A segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments. Pricing of sale of goods and services between segments is decided by the Company on the basis of arms length transactions.

Notes

Segment Reporting

1. The Group´s operation by segments is specified as follows:

	Telecommuni-cations	Other	Eliminations	Total
Net sales	20.296.281	1.819.832	(474.624)	21.641.489
Cost of sales	(10.588.956)	(1.042.977)	69.963	(11.561.970)
Gross profit	9.707.325	776.855	(404.661)	10.079.519
Other operating income	399.943	0	0	399.943
Operating expense	(6.145.000)	(1.132.890)	404.661	(6.873.229)
Operating profit	3.962.268	(356.035)	0	3.606.233
Depreciation included above	3.532.109	315.300	0	3.847.409
Operating profit (EBITDA)	7.494.375	(40.734)	0	7.453.641
Unallocated assets				83.255.404
Consolidated total assets				83.255.404

Quarterly results

2. The Group´s operation by quarters is specified as follows:

	4th quarter 2005	3rd quarter 2005	2nd quarter 2005	1st quarter 2005	4th quarter 2004
Net sales	5.668.625	5.909.082	5.116.742	4.947.040	5.031.675
Cost of sales	(3.169.260)	(3.129.008)	(2.520.268)	(2.743.434)	(2.448.286)
Gross profit	2.499.365	2.780.074	2.596.474	2.203.606	2.583.389
Other operating income	87.695	90.657	110.032	111.559	131.661
Operating expense	(1.786.938)	(1.699.886)	(1.740.403)	(1.646.002)	(2.292.258)
Operating profit	800.122	1.170.845	966.103	669.163	422.792
Financial income (expenses)	(338.978)	168.702	9.551	852.939	386.261
Share of profit (loss) in associates	(19.915)	4.754	(6.549)	(9.026)	7.504
Profit before tax	441.229	1.344.301	969.105	1.513.076	816.557
Income tax	320.380	(225.765)	(40.228)	(290.009)	(183.312)
Profit	761.609	1.118.536	928.877	1.223.067	633.245
Net earnings of the period is attributable to:					
Equity holders of the parent	757.252	1.116.670	924.203	1.221.624	625.748
Minority interest	4.357	1.866	4.674	1.443	7.497
	761.609	1.118.536	928.877	1.223.067	633.245

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Notes

Operating revenue

3. Operating revenue for the Group specifies as follows:

	2005	2004
General telephone system	6.054.070	6.507.726
Mobile systems	8.127.795	7.181.753
Data communications	2.862.288	2.756.405
Network	1.311.266	1.506.511
Other	3.686.013	2.466.655
Total revenue according to the Consolidated Income Statement	22.041.432	20.419.050

Personnel

4. The number of employees was as follows:

	2005	2004
Average number of employees, adjusted for full-time employment	1.273	1.199
Number og employees at year-end	1.370	1.292

5. Salaries and related expenses are specified as follows:

Salaries	5.202.333	4.555.818
Payroll taxes	828.523	675.529
	6.030.856	5.231.347

6. Salaries paid to the Company's Board of Directors, CEO and other senior Directors of the Company amounted to ISK 179 million.

Financial income and expenses

7. Financial income and expenses specify as follows:

Interest earned	523.455	520.210
Income from investments	878.886	288.294
Interest and indexation expenses	(1.470.873)	(626.477)
Exchange gains	760.746	328.621
Total financial income and expenses	692.214	510.648

Income tax expense

8. Reconciliation of effective tax rate

	2005	
Profit before tax		4.267.711
Income tax using the corporation tax rate	18,0%	768.188
Effects of associated companies	0,1%	5.533
Effects of tax losses utilised	-0,4%	(16.958)
Tax exempt revenues	-3,2%	(135.000)
Dividend	-0,2%	(7.028)
Other changes	-8,9%	(379.113)
Effective tax rate	5,5%	235.622

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Notes

Earnings per share

9. Basic earning per share is compared with profit for the year attributable to equity holders of the parent and weighted average number of ordinary shares of the year and shows the earning per share.

Basic earning per share:	2005	2004
Profit for the year attributable to equity holders of the parent...................................	4.019.749	3.079.361
Weighted average number of ordinary shares..	18.982.840	7.036.445
Earnings per share..	0,21	0,44

Property, plant and equipment

10. Property, plant and equipment is specified as follows:

	Telecommuni-cations equipment	Buildings and land	Machinery and equipment	Total
Total value 31.12.2004	33.245.566	4.495.656	5.837.777	43.578.999
Previously depreciated	(19.904.502)	(773.644)	(4.304.290)	(24.982.436)
Net book value 31.12.2004	13.341.064	3.722.012	1.533.487	18.596.563
Effects of transition to IFRS	(4.076)	9.755	(711.268)	(705.589)
Net book value 1.1.2005	13.336.988	3.731.767	822.219	17.890.974
Additions during the period	3.698.059	209.265	410.524	4.317.848
Sales and disposals during the year	0	(22.078)	(7.938)	(30.016)
Depreciation during the year	(2.952.113)	(129.394)	(326.465)	(3.407.972)
Net book value 31.12.2005	14.082.934	3.789.560	898.340	18.770.834

The official real estate valuation on the Company's buildings and land amounted to ISK 3,108 million at year-end 2005 and the insurance value amounted to ISK 4,317 million at the same time. The insurance value of machinery and equipment amounted to ISK 11,838 million.

11. Depreciation are specified as follows:

	2005	2004
Cost of sales	(3.103.117)	(2.954.131)
Operating expenses	(304.855)	(763.893)
Total	(3.407.972)	(3.718.024)

Intangible assets

12. Changes in intangible assets during the year are as follows:

	Goodwill	Software	Contractual-rights	Other	Total
Balance at 31.12.2004	143.541	0	132.870	9.302	285.713
Effect of transition to IFRSs	(74.460)	759.041	0	(116)	684.465
Balance at 1.1.2005	69.081	759.041	132.870	9.186	970.178
Effects of merger	57.604.967	0	0	0	57.604.967
Additions during the year	245.254	237.490	0	0	482.744
Sold during the year	0	(246)	0	0	(246)
Moved to current assets	0	0	(85.106)	0	(85.106)
Amortizations during the year	(121.823)	(310.340)	0	(7.274)	(439.437)
Balance at 31.12.2005	57.797.479	685.945	47.764	1.912	58.533.100

During the year a decision was reached to merge Íslenska sjónvarpsfélagið hf., Skipti ehf. and Síminn hf. from June 30th 2005 under the name of Síminn hf. The assessment of the fair values of intangibles assets is provisional as permitted by IFRS 3. The assessment of fair values will be completed prior to the end of June 2006.

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Notes

Subsidiaries

13. Four subsidiaries are included in the Consolidated Financial Statements. In addition Anza hf. owns one subsidiary that is also included. Former subsidiary, Íslenska sjónvarpsfélagið hf., was merged with Síminn hf. from June 30th. During the year a new subsidiary was establised which main purpose is the operation of directory service and call center. The subsidiaries that are included in the Consolidated Financial Statements are the following:

	Ownership
Anza hf.	88,0%
Rafrænt markaðstorg hf.	65,0%
Upplýsingaveitur ehf.	100,0%
Skíma hf.	100,0%
Tæknivörur ehf.	100,0%

Associates

14. The Group's share in the operating result of its associated companies was a loss of ISK 31 million. The share in net equity amounted to ISK 307 million at the end of the year.

	Ownership %	Nominal value	Book value
Eignarhaldsfélagið Farice ehf.	37,1%	395.477	271.493
Farsímagreiðslur ehf.	40,5%	25.970	18.843
Hið íslenska númeraflutningsfélag ehf.	50,0%	4.000	2.621
Stefja ehf.	60,8%	13.418	13.586
			306.543

Investment

15. At the end of the year the Group owned shares in three foreign and nine domestic companies were the ownership was less than 20%. Ownership in Carrera Ltd. amounted to ISK 348 million. During the year all shares in Straumur fjárfestingabanki hf. were sold with a profit of ISK 702 million. All shares in Eutelsat were also sold with a profit of ISK 106 million. Investment in other companies is stated at cost less impairment losses.

Non-current liabilities:

16. Deferred tax for the Group amounted to ISK 519 million and specifies as follows:

Deferred tax at the beginning of the year	290.654
Effect of transition to IFRSs	105.699
Adjusted deferred tax	396.353
Realized gain on investment	(112.560)
Income tax posted to the income statement	235.622
Income tax payable next year	2
Deferred tax liability at the end of the year	519.417

The deferred tax liability is allocated as follows:

Property and equipment	751.842
Accounts receivable	(34.786)
Other items	(197.639)
	519.417

Síminn hf. - Consolidated Financial Statement 2005 17 All amounts are in thousands of Icelandic kronur

Notes

17. Borrowings are specified as follows by currency denominations:

Loans in USD	6.405.051
Loans in EUR	6.360.048
Loans in GBP	3.147.787
Loans in JPY	6.365.700
Loans in CHF	9.530.679
	31.809.265
Loans in ISK	14.311.716
	46.120.981
Current maturities of borrowings	(2.038.518)
Total borrowings	44.082.463

18. Annual maturities of borrowings are specified as follows:

In the year 2006	2.038.518
In the year 2007	2.375.066
In the year 2008	2.341.301
In the year 2009	2.341.301
In the year 2010	2.341.301
Subsequent payments	34.683.494
Total borrowings, including current maturities	46.120.981

Mortgages and guarantees

19. Assets of the Group are mortaged to guarantee loans, which amount to ISK 31,809 m.kr. at the end of the year 2005.

20. The Group has guaranteed loans for Farice hf. that are nominated in foreign currencies and amounted to ISK 830 million at the end of the year. The Company has entered into an option agreement with a third party that is valued at ISK 215 million at the end of the year. The Group´s commitments on the lease of a submarine telecommunications cable amount to ISK 81 million annually until 2012. The Group´s commitments on account of housing leases amount to ISK 71 million anually until 2018.

Explanation of transition to IFRSs

21. As stated under significant accounting principles, these are the Group´s first Annual Financial Statements prepared in accordance with IFRSs.

The aforementioned accounting principles have been applied in preparing the Consolidated Financial Statements for the year 2005, the comparative information for the year 2004 and the opening IFRS balance sheet at 1 January 2004 which is the transition date for the Group.

Amounts in the opening IFRS balance sheet 1 January 2004 has been adjusted in accordance with IFRSs, but they were previously reported in Financial Statements prepared in accordance with Icelandic GAAP. An explanation of how the transition from Icelandic GAAP to IFRSs has affected the Group´s financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables. No significant changes have been made in the statement of cash flow in the transition from Icelandic GAAP to IFRSs.

Equity 1 January 2005:

Equity according to Icelandic GAAP 31 December 2004	17.048.946
Equity according to IFRSs 1 January 2005	17.500.543
Changes from previous accounting policies	451.597

Síminn hf. - Consolidated Financial Statement 2005 18 All amounts are in thousands of Icelandic kronur

Notes

21. cont:

		1.1.2004	1.1.2005	Samtals
Changes in valuation:				
Expensed intangible assets	IAS 38	(74.460)	(116)	(74.576)
Value changes in property, plant and equipment	IAS 16	0	53.451	53.451
Financial lease instruments realised in liabilities	IAS 17	0	(48.576)	(48.576)
Financial instruments stated at fair value	IAS 39	0	625.074	625.074
Deferred tax liability due to value changes	IAS 12	10.493	(114.269)	(103.776)
Total changes		(63.967)	515.564	451.597

Changes in equity are presented after deducion of income tax.

Changes in presention:		
Intangible assets transferred from property, plant and equipment	IAS 16, 38	759.041
Adjusted presentation of minority interest in equity	IAS 1	25.191

Changes in valuation

The cost of preparing and starting a new kind of service at Rafrænt markaðstorg ehf. was originally recognised as intangible assets. According to IAS 38, capitaliztion of the expenses is not accepted. This change reduces book value of intangible assets by ISK 74.5 million. Comparative amounts in the Consolidated Financial Statements have been changed accordingly.

Expected useful life and residual value of property, plant and equipment was reviewed in preparing the IFRS transition. Changes in expected residual value resulted in an increase in the Groups´ equity. In addition the financial lease instruments which were not included in the Balance Sheet were recognised as assets and liabilities. The book value of property, plant and equipment is increased by ISK 53 million as a result of these changes.

According to IAS 17, financial lease instruments which are not realized in the Balance Sheet are realized as assets and liabilities. Effects from these changes amount to ISK 49 million.

According to IAS 39, securities with a recorded fair value, are presented at fair value at the beginning of the year with a corresponding increase in a special equity account, unrealised gain on investment. The fair value was increased by ISK 625 million.

The tax effect of these changes was estimated and recognised among liabilities as deferred tax, according to IAS 12.

Changes in presentation

In preparing the Financial Statements according to IFRS, assets that are classified as intangible assets according to IAS 38 and were previously classified among property, plant and equipment were transferred to intangible assets. The book value of these assets, which are mostly software, amounted to ISK 759 million.

Minority interest in net equity of subsidiaries within the Group, is now presented among equity but was previously included in provisions in the Balance Sheet.

Síminn hf. - Consolidated Financial Statement 2005 19 All amounts are in thousands of Icelandic kronur

Notes

21. cont:

Consolidated Balance Sheet 1 January 2005

	Financial Statements 31.12.2004	Changes	IFRSs
Assets			
Intangible assets	285.713	684.465	970.178
Property, plant and equipment	18.596.565	(705.590)	17.890.975
Investment in associated companies	370.411	0	370.411
Other investments	926.628	625.074	1.551.702
Non-current assets	20.179.317	603.949	20.783.266
Inventories	589.664	0	589.664
Receivables	4.993.113	0	4.993.113
Cash and cash equivalents	2.825.588	0	2.825.588
Current assets	8.408.365	0	8.408.365
Assets	28.587.682	603.949	29.191.631
Equity and liabilities			
Share capital	7.036.445	0	7.036.445
Statutory reserve	2.345.482	0	2.345.482
Translation reserve	(25.163)	0	(25.163)
Revaluatioin reserves	0	512.561	512.561
Retained earnings	7.635.159	(35.773)	7.599.386
Equity holders of the parent	16.991.923	476.788	17.468.711
Minority interest	57.023	(25.191)	31.832
Total equity	17.048.946	451.597	17.500.543
Deferred tax liabilities	290.654	103.776	394.430
Borrowings	4.311.023	50.021	4.361.044
Non-current liabilities	4.601.677	153.797	4.755.474
Current maturities of borrowings	2.424.702	0	2.424.702
Accounts payable and other current liabilities	4.512.357	(1.445)	4.510.912
Current liabilities	6.937.059	(1.445)	6.935.614
Total equity and liabilities	28.587.682	603.949	29.191.631

Changes in Balance Sheet items are presented without any income tax effect, but changes in equity are presented after deduction of income tax.

The Consolidated Balance Sheet is now presented in one page which is more condenced then previously shown. The management believes that the Financial Statements are more readable and clearer using this presentation.

In preparing the first IFRS Consolidated Financial Statements an emphasis was put on explaining the use of significant accounting policies at the same time as effects of the transition to IFRSs on the Group´s financial position are presented.

Síminn hf. - Consolidated Financial Statement 2005 20 All amounts are in thousands of Icelandic kronur

Notes

21. cont:

The following statement provides information on the effects of the transition to IFRSs on comparative amounts in the first Consolidated Financial Statement 2004.

Consolidated Income Statement for the year 2004

	Financial Statement 2004	Changes	IFRSs
Net sales	19.163.070	640.050	19.803.120
Cost of sales	(9.308.258)	(630.297)	(9.938.555)
	0	0	0
Gross profit	9.854.812	9.753	9.864.565
	0	0	0
Other operating income	615.930	0	615.930
Operating expense	(7.019.730)	(22.067)	(7.041.797)
	0	0	0
Operating profit	3.451.012	(12.314)	3.438.698
	0	0	0
Financial income (expenses)	507.403	3.245	510.648
Share of profit (loss) in associates	(89.524)	0	(89.524)
	0	0	0
Profit before tax	3.868.891	(9.069)	3.859.822
Income tax	(798.949)	30.194	(768.755)
	0	0	0
Profit for the year	3.069.942	21.125	3.091.067
	0	0	0
Attributable to:	0	0	0
Equity holders of the parent	3.070.754	8.607	3.079.361
Minority interest	(812)	12.518	11.706
	3.069.942	21.125	3.091.067

Síminn hf. - Consolidated Financial Statement 2005 21 All amounts are in thousands of Icelandic kronur

Notes

Financial ratios

22. Five year historical information in ISK millions.

	2005	2004	2003	2002	2001
Income statement					
Operating revenue	22.041	20.419	18.761	17.958	18.263
Operating expenses	(14.502)	(12.896)	(11.381)	(10.849)	(11.384)
Operating profit (EBITDA)	7.539	7.523	7.380	7.109	6.879
Depreciation	(3.408)	(3.567)	(4.428)	(4.568)	(3.887)
Amortization	(525)	(517)	(36)	(73)	(75)
Profit before financial income	3.606	3.439	2.916	2.468	2.917
Net financial income (expenses)	693	511	(214)	141	(1.163)
Share of profit (loss) in associates	(31)	(90)	(25)	(1)	(270)
Profit before taxes	4.268	3.860	2.677	2.608	1.484
Taxes	(236)	(769)	(534)	(464)	(493)
Minority interest	(12)	(12)	2	17	48
Profit for the year	4.020	3.079	2.145	2.161	1.039
Balance sheet:					
Non-current assets	78.017	20.784	20.931	22.414	24.712
Current assets	5.238	8.408	7.662	9.217	7.684
Total assets	83.255	29.192	28.593	31.631	32.396
Equity	32.801	17.501	16.058	16.049	14.812
Non-current liabilities	44.602	4.755	7.015	11.143	13.278
Current liabilities	5.852	6.936	5.520	4.439	4.306
Total equity and liabilities	83.255	29.192	28.593	31.631	32.396

22. Financial ratios:

Income Statement:

	2005	2004	2003	2002	2001
Operating profit (EBITDA)	33,8%	38,1%	39,3%	39,6%	37,7%
Profit before financial income (EBIT)	16,4%	16,8%	15,5%	13,7%	16,0%
Return on equity	19,6%	21,1%	14,8%	15,2%	7,5%

Balance Sheet:

	2005	2004	2003	2002	2001
Current ratio	0,90	1,21	1,39	2,08	1,78
Equity ratio	0,39	0,59	0,56	0,51	0,46
Internal value of Capital shares	1,06	2,41	2,28	2,28	2,11

Síminn hf. - Consolidated Financial Statement 2005 22 All amounts are in thousands of Icelandic kronur

MERGER PLAN IN RESPECT OF THE MERGER OF SKIPTI EHF.,
ÍSLENSKA SJÓNVARPSFÉLAGID HF.
AND LANDSSÍMI ÍSLANDS HF.

Landssími Íslands hf.

Skipti ehf. og Íslenska Sjónvarpsfélagið hf.

Gögn um samruna félaganna 1. júlí 2005

Október 2005

Hlutafélagaskrá
Laugavegi 166
150 Reykjavík

Reykjavík, 31. október 2005.

Efni: Tilkynning um gerð samrunaáætlunar vegna sameiningar Skipta ehf., kt. 530705-1450 Íslenska Sjónvarpsfélagsins hf., kt. 640593-2029 og Landssíma Íslands hf., kt. 500269-6779

Subj.: Notification regarding a merger plan in respect of the pending merger of Skipti EHF., Íslenska Sjónvarpsfélagið HF. and Landssími Íslands HF.

Stjórnir Skipta ehf., kt. 530705-1450, Tjarnargötu 35, Reykjavík, Íslenska Sjónvarpsfélagsins hf. kt. 640593-2029, Skipholti 31 og Landssíma Íslands hf., kt. 500269-6779, Ármúla 25, Reykjavík, hafa sameiginlega samþykkt samrunaáætlun fyrir félögin þar sem fram kemur að Skipti ehf. og Íslenska Sjónvarpsfélagið hf. verði sameinað Landssíma Íslands hf.

The board of directors of Skipti EHF., national ID no. 530705-1450, Tjarnargötu 35, Reykjavík, Íslenska Sjónvarpsfélagið HF., ID no. 640593-2029, Skipholti 31, Reykjavík and Landssími Íslands HF, national ID no. 500269-6779, Ármúla 25, Reykjavík, have jointly approved a merger plan for the companies, stating that Skipti EHF and Íslenska Sjónvarpsfélagið HF. will be merged with Landssíma Íslands HF.

Hjálagt með tilkynningu þessari er að finna framangreinda samrunaáætlun og skýrslu matsmanns vegna sameiningar félaganna.

Accompanying this notification are the aforementioned merger plan and the assessors' report regarding the companies' merger.

Gögn skv. 3. - 5. tl. 5. mgr. 99. gr. einkahlutafélagalaga, sbr. 103. gr. sömu laga, verða send hlutafélagaskrá með tilkynningu um lok sameiningar.

The documents, cf. items 3-5, paragraph 5, Art. 99 of the Act on Private Limited Liability Companies, cf. Art. 103 of the same act, will be sent to the Icelandic Register of Enterprises upon the completion of the merger.

Í stjórn Skipta ehf.

Í stjórn Landssíma Íslands hf.

Í stjórn Íslenska Sjónvarpsfélagsins hf.

SAMRUNAÁÆTLUN Í TILEFNI AF FYRIRHUGAÐRI SAMEININGU SKIPTA EHF., ÍSLENSKA SJÓNVARPSFÉLAGSINS HF. og LANDSSÍMA ÍSLANDS HF.

MERGER PLAN IN RESPECT OF THE PENDING MERGER OF SKIPTI EHF., ÍSLENSKA SJÓNVARPSFÉLAGIÐ HF. AND LANDSSÍMI ÍSLANDS HF.

Stjórnir Skipta ehf., kt. 530705-1450, Tjarnargötu 35, Reykjavík, Íslenska sjónvarpsfélagsins hf., kt. 640593-2029, Skipholti 31 og Landssíma Íslands hf., kt. 500269-6779, Ármúla 25, Reykjavík, gera eftirfarandi áætlun um sameiningu félaganna.

The boards of Skipti EHF, national ID no. 530705-1450, Tjarnargata 35, Reykjavík, Íslenska Sjónvarpsfélagið HF, national ID no. 640593-2029, Skipholti 31 and Landssími Íslands HF, national ID no. 500269-6779, Ármúli 25, Reykjavík, enter into the following plan regarding the companies' merger.

1. gr.

Skipti ehf., Íslenska Sjónvarpsfélagið hf. og Landssími Íslands hf. skulu sameinuð undir nafni og kennitölu Landssíma Íslands, hf. Sameiningin er í samræmi við ákvæði XIV. kafla hlutafélagalaga nr. 2/1995 og XIV. kafla einkahlutafélagalaga nr. 138/1994. Samþykktir Landssíma Íslands hf. skulu gilda fyrir hið sameinaða félag eins og þær kunna að verða eftir sameininguna.

Skipti EHF, Íslenska sjónvarpsfélagið HF and Landssími Íslands HF shall be merged under the name and national identification number of Landssími Íslands HF. . The merger is in accordance with the provisions of Section XIV of the Corporate Act no. 2/1995, and Section XIV of the Act on Private Limited Liability Companies no. 138/1994. Landssími Íslands HF's Articles of Association as amended shall apply to the merged company as they will be after the merger.

2. gr.

Sem gagngjald fyrir hluti sína í Skiptum ehf.. skulu hluthafar Skipta ehf. eingöngu fá hluti í Landssíma Íslands hf. Samtals fá hluthafar í Skiptum ehf. hluti í Landssíma Íslands hf. að nafnverði kr. 30.000.000.000 sem gagngjald fyrir hluti sína í Skiptum ehf. að nafnverði kr. 30.000.000.000.

As payment for their shares in Skipti EHF, the shareholders of Skipti EHF shall only receive shares in Landssími Íslands HF.. The shareholders of Skipti EHF shall receive shares Landssími Íslands HF totaling at nominal par value ISK 30,000,000,000 as payment for their shares in Skipti EHF at nominal par value ISK 30,000,000,000

Sem gagngjald fyrir hluti sína í Íslenska Sjónvarpsfélaginu hf. skulu aðrir hluthafar Íslenska Sjónvarpsfélagsins HF. en Landssími Íslands hf. eingöngu fá hluti í Landssíma Íslands hf. Samtals fá hluthafar í Íslenska Sjónvarpsfélaginu hf. hluti í Landssíma Íslands hf.. að nafnverði kr. 173.097.104 sem gagngjald fyrir hluti sína í Íslenska Sjónvarpsfélaginu hf. að nafnverði kr. 144.247.587.

As payment for their shares in Íslenska Sjónvarpsfélagið HF, other shareholders of Íslenska Sjónvarpsfélagið HF. than Landssimi Íslands Hf. shall only receive shares in Landssíma Íslands HF. The shareholders of Íslenska

Sjónvarpsfélagið HF. shall receive shares Landssími Íslands HF totaling at nominal par value ISK 173,097,104 as payment for their shares in Íslenska Sjónvarpsfélagið HF. at nominal par value ISK 144,247,587.

Vegna hlutafjárhækkunar í tengslum við samrunann munu aðrir hluthafar í Landssíma Íslands HF. en Skipti ehf. fá viðbótarhlutafé í sameinuðu félagi að nafnverði kr. 677.881.851.

Due to share increase in the merged company other shareholders than Skipti ehf. will receive 677,881,851 additional shares in the merged company.

3. gr.

Þeir hlutir sem hluthafar Skipta ehf. fá í Landssíma Íslands hf.. sem gagngjald fyrir hlutafé sitt skulu veita rétt til arðs frá þeim degi sem sameiningin miðast við.

The shares, which the shareholders of Skipti EHF. receive in Landssími Íslands HF. as payment for their shares shall provide the right to dividend effective as of the day of the merger.

Þeir hlutir sem hluthafar Íslenska Sjónvarpsfélagsins hf. fá í Landssíma Íslands hf.. sem gagngjald fyrir hlutafé sitt skulu veita rétt til arðs frá þeim degi sem sameiningin miðast við.

The shares, which the shareholders of Íslenska Sjónvarpsfélagið HF. receive in Landssími Íslands HF. as payment for their shares shall provide the right to dividend effective as of the day of the merger.

4. gr.

Enginn hluthafi skal njóta sérréttinda í hinu sameinaða félagi.

No shareholder shall receive special rights in the merged company.

5. gr.

Landssími Íslands HF. skal taka við öllum eignum og skuldum svo og öðrum réttindum og skyldum Skipta ehf.. frá og með 30 júní 2005. Frá því tímamarki skal réttindum og skyldum Skipta ehf.. reikningslega teljast lokið.

Landssími Íslands HF. shall receive all the assets and debts, as well as all other rights and obligations of Skipti EHF., effective as of 30th of June 2005. Effective from that date the rights and obligations of Skipti EHF. shall be completed from an accounting point of view.

Landssími Íslands HF. skal taka við öllum eignum og skuldum svo og öðrum réttindum og skyldum Íslenska Sjónvarpsfélagsins hf. frá og með 30. júní 2005 Frá því tímamarki skal réttindum og skyldum Íslenska Sjónvarpsfélagsins hf. reikningslega teljast lokið.

Landssími Íslands HF. shall receive all the assets and debts, as well as all other rights and obligations of Íslenska Sjónvarpsfélagið HF., effective as of 30th of June 2005. Effective from that date the rights and obligations of Íslenska Sjónvarpsfélagsins HF. shall be completed from an accounting point of view.

6. gr.

Til staðfestu rita stjórnir Landssíma Íslands hf., Íslenska Sjónvarpsfélagsins hf. og Skipta ehf.. undir áætlun þessa. Skulu stjórnirnar sameiginlega sjá um framkvæmd samrunaáætlunarinnar.

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In confirmation of the above, the boards of directors of Landssími Íslands HF., Íslenska Sjónvarpsfélagið HF and Skipti EHF. sign this plan. The boards shall jointly execute the merger plan.

Reykjavík, 31. október 2005.

Í stjórn Landssíma Íslands hf.:

Í stjórn Íslenska Sjónvarpsfélagsins hf.:

Í stjórn Skipta ehf.:

Greinargerð stjórna Skipta ehf., Íslenska Sjónvarpsfélagsins HF. og Landssíma Íslands HF. skv. 121. gr. Hlutafélagalaga nr. 2/1995 sbr og 96. gr. einkahlutafélagalaga nr. 138/1994.

Report by the Board of Directors of Skipti EHF, Íslenska Sjónvarpsfélagið HF. and Landssími Íslands HF cf. Art. 121 of the Act on Limited Liability Companies nr. 2/1995 in accordance with cf. Art 96 of the Act on Private Limited Liability Companies no. 138/1994

Fyrir liggur samrunaáætlun vegna fyrirhugaðrar sameiningar Skipta ehf. og Íslenska Sjónvarpsfélagsins hf. við Landssíma Íslands hf. miðað við 30. júní 2005. Í samrunaáætluninni koma fram þau atriði sem greind eru í 120 gr. hlutafélagalaganna nr. 2/1995 sbr. og 95. gr. einkahlutafélagalaga nr. 138/1994 eftir því sem við á. Tilgangurinn með samruna félaganna tveggja er að auka hagkvæmni í rekstri þeirra.

A merger plan has been prepared regarding the pending merger of Skipti EHF and Íslenska Sjónvarpsfélagið HF. with Landssími Íslands HF. effective as of 30th of June 2005. The merger plan addresses the factors stipulated in Art. 120 of the Act on Limited Liability Companies no 2/1995 in accordance with art 95 of the Act on Private Limited Liability Companies no. 138/1994 as applicable. The purpose of the companies' merger is to increase efficiency in their operation.

Samkomulag varð á milli stjórna félaganna um mat á skiptihlutföllum við samrunann. Matið byggist á fyrirliggjandi efnahagsreikningum félaganna að teknu tilliti til matsbreytinga á ýmsum efnahagsliðum, auk þess sem tekið er tillit til þess hagræðis sem ætlað er að samruninn muni hafa í för með sér.

An agreement was made between the companies' boards of directors on an assessment of the percentage of division of shares upon the merger. The assessment was based on the current balance sheets of the companies, taking into account the assessed changes of various financial factors, as well as considering the anticipated feasibility of the merger.

Hluthafar í Skiptum, ehf., fá hlutabréf í Landssíma Íslands að nafnverði kr. 30.000.000.000 sem gagngjald fyrir bréf sín í Skiptum ehf. að nafnverði kr. 30.000.000.000

The shareholders in Skipti EHF. will receive shares in Landssími Íslands HF. at nominal par value ISK 30,000,000,000 as payment for their shares in Skipti EHF at nominal par value ISK 30,000,000,000.

Hluthafar (aðrir en Landssími Íslands hf.) í Íslenska Sjónvarpsfélaginu hf., fá hlutabréf í Landssíma Íslands hf. að nafnverði kr. 173.097.104 sem gagngjald fyrir bréf sín í Íslenska Sjónvarpsfélaginu hf. að nafnverði kr. 144.247.587

The shareholders in Íslenska Sjónvarpsfélagið HF. (others than Landssími Íslands HF.) will receive shares in Landssími Íslands HF. at nominal par value ISK 173,097,104 as payment for their shares in Íslenska Sjónvarpsfélagið HF. at nominal par value ISK 144,247,587.

Stjórnir félaganna lögðu til grundvallar að tryggja að skuldsetning Skipta ehf. sem yrði hluti af hinu sameinaða félagi við sameininguna veitti hluthöfum í sameinuðu félagi hlutfallslega

PK

réttan eignarhlut miðað við viðbótarskuldsetningu félagsins.Til að ákvarða endurgjald fyrir hluti í Skiptum ehf., sem er hið yfirtekna félag, var horft til þessa.

The boards of directors base on making sure that that even though the debts of Skipti ehf. would become debts of the merged company the proportional value of the shares of each shareholder in each company will reflect the value of the shares in each company prior to the merger. This base was the main focus of the boards when determining the remuneration for the shares in each company.

Skipti ehf. keyptu 6.949.732.496 hluti í Landssíma Íslands hf. á 66,7 milljarða króna eða 9,6 krónur pr. hlut. Aðrir hluthafar í félaginu eiga fyrir sameiningu 78.823.471 hluti í félaginu, sem miðað við sama gengi þýðir verðmæti að fjárhæð kr. 756.705.322. Inngreitt hlutafé í Skipti ehf. nam hins vegar 30.000.000.000 króna sem þýðir að miðað við hækkun hlutafjár í Landsíma Íslands hf., krónu fyrir krónu þannig að upphafsgengi sameinaðs félags verði 1 kr. pr. hlut, felur í sér að vegna samruna Skipta ehf. hækki hlutafé Landsíma Íslands hf. um 30.000.000.000 króna en aðrir hluthafar eigi samt sem áður hluti að verðmæti kr. 756.705.322. Miðað við að hver hlutur sé að verðmæti 1 króna felur það í sér að um sé að ræða 756.705.322 hluti sem skiptist í réttum hlutföllum á milli þessara hluthafa en hluthafar í Skipti ehf. eigi 30.000.000.000 hluta.

Skipti ehf. purchased 6,949,732,496 shares in Landssími Íslands hf. for 66.7 billion ISK, i.e. 9.6 ISK pr. share. Other shareholders in the company own 78,823,471 shares in the company, prior to the merger. The market value of those shares is ISK 756,705,322. In paid capital of Skipti ehf. is ISK 30,000,000,000 which means that compared with increase of share capital in the merged company with the value of ISK 1 pr. share, the merger of Skipti ehf. into Landssími Íslands hf. would mean a ISK 30,000,000,000 increase of share capital. Other shareholders of Landssími Íslands hf. should in spite of that have shares with the value of ISK 756,705,322. Considering the value of ISK 1 pr. share this means that the other shareholders should own 756,705,322 shares divided proportionally between them and the shareholders of Skipti ehf. would receive 30,000,000,000 shares.

Til þess að fá fram skiptahlutföll við Íslenska sjónvarpsfélagið hf. var miðað við gangverð í viðskiptum með hluti í félaginu eða gengi 1,2 pr. hlut. Miðað við framangreint markaðsverð á hlutum í félaginu er markaðsverð hluta minnihlutaeigenda í Íslenska sjónvarpsfélaginu hf. kr. 173.097.104. Samkvæmt sömu aðferð og að framan er lýst um hlutafjárhækkun krónu fyrir krónu og miðað við að upphafsgengi hluta í sameinuðu félagi verði 1 kr. pr. hlut myndu minnihlutaeigendur í Íslenska sjónvarpsfélaginu hf. fá samtals 173.097.104 hluti í sameinuðu félagi.

In order to find the correct exchange ratio of Íslenska sjónvarpsfélagið hf. the market value of the shares in business transactions was considered. This value is 1.2 pr. share. According to this market value the total market value of the shares owned by the minority owners in Íslenska sjónvarpsfélagið hf. is 173,097,104. Using the same method as before mentioned, increasing the share capital in the merged company with the value of ISK 1 pr. share, the minority shareholders of Íslenska sjónvarpsfélagið hf. would receive 173.097.104 shares in the merged company.

Hlutafé í sameinuðu félagi væri samkvæmt framanrituðu hækkað í kr. 30.929.802.426 og skiptist samkvæmt þeirri aðferð sem lýst hefur verið hér að framan þannig að:

- hluthafar í Skiptum ehf. fá 96,99% hlutafjár
- aðrir hluthafar í Landssíma Íslands hf. fyrir sameiningu fá 2,45% hlutafjár

ÞK

- hluthafar í Íslenska sjónvarpsfélaginu hf., aðrir en Landssími Íslands hf., fá 0,56% hlutafjár í sameinuðu félagi.

The share capital in the merged company according to this would be increased to ISK 30,929,802,426 and would be break down as follows:

- Shareholders in Skipti ehf. would receive 96.99% of the share capital
- Other shareholders in Landssími Íslands hf., prior to the merger, would receive 2.45% of the share capital
- Shareholders in Íslenska sjónvarpsfélagið hf., other than Landssími Íslands hf., would receive 0.56% of the share capital

Aðrir hluthafar í Landsíma Íslands hf. en Skipti ehf. áttu 1,12% í félaginu fyrir sameiningu. Til þess að einstakir hluthafar átti sig á hvaða hlut þeir muni eiga í sameinuðu félagi má til skýringar nefna að hlutur þeirra er margfaldaður með 9,6 til að sjá fjölda hluta en með stuðlinum 2,1875 til að sjá þá prósentu sem þeir eiga í sameinuðu félagi. Með þessu má sjá að hlutfallslega rúmlega tvöfaldast hundraðshlutaeign þeirra miðað við það sem var fyrir sameiningu, sem skýrist af þeim skuldum sem koma inn í félagið við sameininguna.

Shareholders in Landssími Íslands hf., other than Skipti ehf., owned 1.12% in the company prior to the merger. In order to enable each shareholder to realize their ownership in the merged company they can multiply their shares with 9.6 in order to see the number of shares in the merged company. Using the coefficient 2.1875 each shareholder can calculate the percentage in the merged company. This shows that the percentage owned by each shareholder more than doubles compared to the percentage owned prior to the merger. This is due to the additional debts transferred to the company with the merger.

Með greinargerð þessari fylgja drög að upphafsefnahagsreikningi fyrir Landssíma Íslands hf. eftir samrunann.

Accompanying this report is a draft of the initial balance sheet of Landssími Íslands HF. after the merger.

Reykjavík, 31. október 2005

Í stjórn Landssíma Íslands hf.

Í stjórn Skipta ehf.

Í stjórn Íslenska Sjónvarpsfélagsins.

Stjórnir / Board of
Landssími Íslands hf.
Skipti ehf.
og / and
Íslenska sjónvarpsfélagið hf.

Reykjavík, 31. október 2005

Efni: Skýrsla matsmanna vegna samruna Landssíma Íslands hf., Skipta ehf. og Íslenska sjónvarpsfélagsins hf., sbr. 97. gr. laga nr. 138/1994 um einkahlutafélög og 122. gr. laga nr. 2/1995 um hlutafélög

Assessors' report in respect of the merger of Landssími Íslands HF., Skipti EHF. and Íslenska sjónvarpsfélagið HF., cf. Art. 97 of the Private Limited Liability Act no. 138/1994 and Art. 122 of the Corporate Act no. 2/1995

Undirritaður hefur kannað samrunaáætlun Landssíma Íslands hf., Skipta ehf. og Íslenska sjónvarpsfélagsins hf. dags. 31. október 2005 og vill í því sambandi taka eftirfarandi fram:

The undersigned has studied the merger plan of Landssími Íslands HF., Skipti EHF and Íslenska sjónvarpsfélagið HF, dated October 31, 2005, and states the following in this regard:

Samkomulag var á milli stjórna félaganna um matið og voru engin sérstök vandkvæði bundin við mat á félögunum. Hluthafar í Skiptum ehf. fá hlutabréf að nafnverði kr. 30.000.000.000 í Landssíma Íslands hf. sem gagngjald fyrir hlut sinn í Skiptum ehf., hluthafar í Íslenska sjónvarpsfélaginu hf., aðrir en Landssími Íslands hf., fá hlutabréf að nafnverði 173.097.104 fyrir hlut sinn í Íslenska sjónvarpsfélaginu hf. og hluthafar í Landssíma Íslands HF., aðrir en Skipti ehf., fá viðbótarhlutafé í sameinuðu félagi að nafnverði kr. 677.881.851. Samanlagt verður heildarhlutafé í hinu sameinaða félagi samtals kr. 30.929.802.426 eftir sameininguna.

An agreement was made between the companies' boards of directors on the assessment, and there were no particular problems entailed in assessing the companies' assets. The shareholders of Skipti EHF. receive shares at nominal par value ISK 30,000,000,000 in Landssími Íslands HF. as payment for their shares in Skipti EHF. Sharholders in Íslenska sjónvarpsfélagið hf., other than Landssími Íslands hf., receive 173,097,104. Shareholders in Landssimi Íslands hf., other than Skipti ehf., receive 677,881,851 additional shares in the merged company. Share capital in the merged company will total ISK 30,929,802,426 after the merger.

Í greinargerð stjórna félaganna kemur fram að til að ákvarða endurgjald fyrir hluti í einstökum félögum, hafi verið horft til þess að tryggja að skuldsetning Skipta ehf. sem yrði hluti af hinu sameinaða félagi við sameininguna veitti hluthöfum í sameinuðu félagi hlutfallslega réttan eignarhlut miðað við viðbótarskuldsetningu félagsins.

In the report made by the board of directors in the companies it is stated that in order to determine the remuneration of the shares in each company the aim was to guarantee that even though the debts of Skipti ehf. would become debts of the merged company, the proportional value of the shares of each shareholder in each company would not be compromised.

Aðferðin sem notuð er miðar við markaðsverðmæti hvers félags fyrir sameininguna og er sýnt með tölum fram á hver endanleg niðurstaða eignarhluta hluthafa verður.

The valuation method is based on the marked value of each company prior to the merger and demonstrates what the the final ownership and value of each shareholder will be.

Sú aðferð sem beitt hefur verið og skýrð er út í greinargerðum stjórna félagsins er að mati undirritaðs eðlileg miðað við allar gefnar forsendur og markaðsverð félaganna fyrir sameiningu þeirra og til þess fallin að láta einstökum hluthöfum falla í té eignarhlut sem endurspeglar á sem bestan hátt eign þeirra fyrir samrunann. Í greinargerðum stjórna félagsins er aðferðin við matið skýrð út og rökstudd á fullnægjandi hátt.

The valuation method used and clarified in the report of the boards of directors is in the view of the undersigned reasonable and substantiated in respect of all given assumptions and the market value of the companies prior to the merger. The method should give the shareholders in each company as reasonable ownership in the merged company as possible. In the report of the boards of directors the valuation method is sufficiently explained and substantiated.

Þrátt fyrir að skuldir Skipta ehf. flytjist yfir í hið sameinaða félag við sameininguna verður ekki talið að sameiningin rýri möguleika lánadrottna einstakra félaga á að fá fullnustu krafna sinna. Í því sambandi er sérstaklega tekið fram að félaginu er þegar tryggð endurfjármögnun á þann hátt að allar langtímaskuldir félagsins geti verið gerðar upp og veltufjárstaða hins sameinaða félags verði þá jákvæð.

Though the debts of Skipti ehf. will be transferred to the merged company it should not diminish the possibilities of creditors for recourse in the individual Companies. In this respect it shall be noted that the refinancing of the merged company has been guaranteed in a manner that enables the merged company to pay all long term debts in full and the working capital of the merged company will then be positive.

Virðingarfyllst,

Deloitte hf.

Hilmar A. Alfreðsson
endurskoðandi

Áritun endurskoðenda

Til stjórna Landssíma Íslands hf., Íslenska sjónvarpsfélagsins hf. og Skipta ehf.

Við höfum kannað meðfylgjandi samrunaefnahagsreikning Landssíma Íslands hf., Íslenska sjónvarpsfélagsins hf, og Skipta ehf. en hann er byggður á árshlutareikningum félaganna fyrir fyrstu sex mánuði ársins 2005. Árshlutareikningarnir eru áritaðir könnunaráritun af endurskoðendum félaganna. Í samrunaefnahagsreikningi er gerð grein fyrir þeim breytingum á eiginfjárreikningum og öðrum efnahagsliðum sem samruninn hefur í för með sér.

Samkvæmt samrunaáætlun stjórna félaganna dags. í dag miðast samruninn við 1. júlí 2005, en eigið fé samkvæmt samrunaefnahagsreikningi nemur 30.929 milljónum kr.

Reykjavík, 31. október 2005

Deloitte hf.

Hilmar A. Alfreðsson
endurskoðandi

Landssími Íslands hf. Samrunaefnahagsreikningur 1. júlí 2005

Eignir

	Skipti ehf eftir kaup á Landssíma Íslands hf.	Landssími Íslands hf. Árshlutareikningur 30. júní 2005	Íslenska Sjónvarpsfélagið hf. Árshlutareikningur 30. júní 2005	Samrunafærslur	Landssími Íslands hf. Samrunaefnahagsreikningur 1. júlí 2005
Fastafjármunir					
Varanlegir rekstrarfjármunir		17.736.859	133.283		17.870.142
Óefnislegar eignir		724.140	423.703	56.617.731	57.765.574
Eignarhlutir í hlutdeildarfélögum		335.982			335.982
Eignarhlutir í dótturfélögum	68.440.609	387.878		(68.461.394)	367.093
Eignarhlutir í öðrum félögum og aðrir fastafjármunir		534.971	19.500		554.471
Fastafjármunir	68.440.609	19.719.830	576.486	(11.843.663)	76.893.262
Veltufjármunir					
Birgðir		302.352	242.807		545.159
Viðskiptakröfur		4.576.788	183.215		4.760.003
Aðrar skammtímakröfur		498.207			498.207
Handbært fé		1.321.549	60.001		1.381.550
Veltufjármunir	0	6.698.896	486.023	0	7.184.919
Eignir	68.440.609	26.418.726	1.062.509	(11.843.663)	84.078.181

Eigið fé og skuldir

	Skipti ehf eftir kaup á Landssíma Íslands hf.	Landssími Íslands hf. Árshlutareikningur 30. júní 2005	Íslenska Sjónvarpsfélagið hf. Árshlutareikningur 30. júní 2005	Samrunafærslur	Landssími Íslands hf. Samrunaefnahagsreikningur 1. júlí 2005
Eigið fé					
Hlutafé	30.000.000	7.036.445	1.392.375	(7.499.018)	30.929.802
Lögbundinn varasjóður	0	2.345.482		(2.345.482)	0
Óinnleystur þýðingarmunur	0	(44.017)		44.017	0
Óráðstafað eigið fé	0	3.412.412	(1.369.232)	(2.043.180)	0
Eigið fé	30.000.000	12.750.322	23.143	(11.843.663)	30.929.802
Skuldir					
Langtímaskuldir					
Tekjuskattsskuldbinding		656.511			656.511
Skuldabréfalán	38.440.609	6.067.984	104.386		44.612.979
Langtímaskuldir	38.440.609	6.724.495	104.386	0	45.269.490
Skammtímaskuldir					
Næsta árs afborganir langtímaskulda		2.154.990	93.835		2.248.825
Skuldir við lánastofnanir		3.041	295.332		298.373
Viðskiptaskuldir		1.854.291	481.285		2.335.576
Aðrar skammtímaskuldir		2.931.587	64.528		2.996.115
Skammtímaskuldir	0	6.943.909	934.980	0	7.878.889
Skuldir	38.440.609	13.668.404	1.039.366	0	53.148.379
Eigið fé og skuldir	68.440.609	26.418.726	1.062.509	(11.843.663)	84.078.181

Fjárhæðir í þúsundum króna

DEMERGER SCHEDULE OF SÍMINN HF. AND SKIPTI HF.

Síminn hf. og Skipti hf.

Gögn um skiptingu Símans hf. Viðtökufélag er Skipti hf.

Documents regarding the de-merger of Síminn hf. The company formed by the de-merger is Skipti hf.

Efnisyfirlit

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SKIPTINGARÁÆTLUN
De-Merger Schedule

Stjórn Símans hf., kt. 500269-6779, Ármúla 25, 150 Reykjavík gerir með sér svohljóðandi skiptingaráætlun.

The board of directors in Siminn hf., Corporate ID-No. 500269-6779, Ármúla 25, 150 Reykjavík, has agreed upon the following de-merger schedule.

1. Stjórn félagsins er sammála um að Símanum hf. verði skipt samkvæmt 133. gr. laga um hlutafélög nr. 2/1995. Í skiptingunni renna tilteknir eignarhlutar félagsins í dótturfélögum og öðrum félögum, alls 23 eignarhlutir, inn í Skipti hf. Einnig renna inn í Skipti hf. hluti þeirra hlutabréfa í Símanum hf. sem hluthafar í Símanum hf. láta af hendi við skiptinguna, sbr. 2. gr. hér á eftir, eða að nafnverði kr. 10.058.675.734. Jafnframt renna kröfur og skuldir tengdum eignarhlutunum, með áföllnum vöxtum, inn í Skipti hf. ásamt skuldabréfi Símans hf. sem skráð er í Kauphöll Íslands. Skiptingin skal reikningshaldslega miðast við 31. október 2006.

   The board of directors has agreed that Síminn hf., will be de-merged in accordance with the Public Limited Liability Act no. 2/1995, Article 133. The de-merger will be performed by moving into Skipti hf. shares in subsidiaries, and other companies, a total of 21 different shareholdings. In addition to this part of shares rendered by the shareholders according to Article 2, at nominal value 10.058.675.734 ISK will move to Skipti hf. Debts and receivables with accrued interests, connected to the shareholdings, along with the bond registered on the Icelandic Stock Exchange, will also move to Skipti hf. The date of the de-merger is 31st of October according to the balance sheet enclosed.

2. Við skiptinguna fá hluthafar í Símanum hf. eingöngu hluti að nafnverði kr. 7.000.000.000 eða allt hlutafé í Skipti hf. í skiptum fyrir hlutabréf sín að nafnverði kr. 30.400.398.440 í Símanum hf.

   The shareholders of Siminn hf. shall receive all shares in Skipti hf., at the nominal value 7.000.000.000 ISK, in return for their shares in Siminn hf., nominal value 30.400.398.440 ISK. The shareholders do not receive any other return for their shares in Siminn hf.

3. Eftir skiptingu verður hlutafé í Símanum hf. kr. 10.588.079.720, en var kr. 30.929.802.426. Við skiptinguna lækkar þannig hlutafé Símans hf. um kr. 20.341.722.706 í samræmi við 51. gr. l. nr. 2/1995 um hlutafélög. Hlutafé í Skipti hf. fyrir skiptingu er kr. 4.000.000 en eykst um kr. 6.996.000.000 við skiptinguna og verður þá að nafnverði kr. 7.000.000.000.

   After the de-merger the share capital of Siminn hf. will be 10.588.079.720 ISK, but was before 30.929.802.426 ISK. At the time of the de-merger the share capital of Siminn hf. is lowered by 20.341.722.706 ISK in accordance with the Public Limited Liability Act no. 2/1995, Article 51. The share capital of Skipti hf. before the de-merger is 4.000.000 ISK, but will increase with the de-merger by 6.996.000.000 ISK and be after the de-merger at nominal value 7.000.000.000 ISK.

4. Hlutir þeir í Skipti hf. sem látnir eru hluthöfum Símans hf. í té við uppskipti skulu frá skiptingardegi veita öll sömu réttindi og eldri hlutir, þar með talið réttindi til arðs.

   The shares in Skipti hf. which the shareholders of Siminn hf. receive shall from the official day of de-merger give all the same rights as the older shares, including the right to dividends.

5. Skiptingin skal reikningslega taka gildi 31. október 2006 og frá þeim degi tekur Skipti hf. við öllum tekjum og greiða öll gjöld vegna eigna og skulda þeirra sem til þess renna við skiptinguna.

   The de-merger shall come to effect as of the 31st of October 2006 and from that day Skipti hf. shall receive all income and pay all dues connected to the assets and liabilities that Skipti hf. receives with the de-merger.

6. Engir hluthafar, stjórnendur, lánadrottnar né aðrir skulu njóta sérstakra réttinda, hlunninda eða annars umfram aðra.

   No shareholders, managers, creditors or others shall be in a preferred position nor enjoy any special rights or benefits putting them in any kind of preferred position than others.

7. Stefnt skal að því, að ákvörðun um skiptingu félagsins verði tekin til afgreiðslu á hluthafafundi í Símanum hf. fyrir lok mars 2007.

   It is estimated that shareholders meeting will formally decide on the de-merger no later than the end of March 2007.

8. Sá fyrirvari er gerður vegna skiptingar þessarar að nauðsynleg forsenda þess að óskað sé eftir samþykki hluthafafundar er að staðfesting hafi verið fengin hjá einkavæðingarnefnd vegna skiptingarinnar.

   It is noted that this de-merger will not be taken into consideration by the shareholders meeting if a confirmation on the de-merger and its effects by the Executive Committee on Privatization has not been established before that time.

9. Til staðfestingar á skiptingaráætlun þessari undirritar stjórn Símans hf. hana með fyrirvara um tilskilið samþykki hluthafafundar og tekur skiptingin gildi við þá staðfestingu.

   As confirmation of this de-merger schedule the board of directors in Siminn hf. shall sign below with the provisionally that the shareholders meeting shall confirm it and by such a confirmation the de-merger shall become active.

Reykjavík, 19. desember 2006.

Stjórn Símans hf.
(Board of Siminn hf.)

Greinargerð stjórnar Símans hf. um skiptingaráætlun
Board of Directors De-Merger Exposition

Í samræmi við 121. gr. laga nr. 2/1995, um hlutafélög, setur stjórn Símans hf. fram eftirfarandi greinargerð um skiptingu félagsins:

In accordance with the Public Limited Companies Act no. 2/1995, Article 121, the board of directors puts forward the following exposition:

Skipting Símans hf. er liður í skipulagsbreytingu í samstæðu Símans hf. sem gengur út á að hver rekstareining verði rekin sem sér dótturfyrirtæki og þau verði síðan öll í eigu eins móðurfélags, eignarhaldsfélags, sem ekki mun hafa annan rekstur með höndum en þeim sem fylgir eignarhaldi á öðrum félögum og að koma fram fyrir samstæðuna sem samnefnari. Í seinni skiptingunni er síðan einnig rekstrareiningum, fasteignum og fjarskiptanetinu, sérstaklega skipt í sérstök dótturfélög.

The de-merger of Siminn hf. is part of an organizational change within the consolidated croup of Siminn hf. which has its objective to have each operational unit run in separate subsidiaries which are all owned by one parent company, a holding company, which will not have any operations, other than is necessary for the holding of shares in other companies and to front the group as whole. In a second de-merger real estate and the telecommunications network will be placed separately in different subsidiaries.

Símanum hf. verður skipt upp þannig að hluti eignarhluta félagsins í dótturfélögum og öðrum félögum renni inn í Skipti hf. Einnig renna inn í Skipti hf. hlutabréf þau í Símanum hf. sem hluthafar í Símanum hf. láta af hendi við skiptinguna, sbr. 2. gr. hér á eftir, að nafnverði kr. 10.058.675.734. Jafnframt renna kröfur og skuldir tengdum eignarhlutunum, með áföllnum vöxtum, inn í Skipti hf. ásamt skuldabréfi Símans hf. sem skráð er í Kauphöll Íslands. Skiptingin skal reikningshaldslega miðast við 31. október 2006.

Siminn hf. will be de-merged by moving into Skipti hf. shares in subsidiaries and other companies. In addition to this part of the shares rendered by the shareholders according to Article 2 will move to Skipti hf., at nominal value 10.058.676.000 ISK. Debts and receivables with accrued interests, connected to the shareholdings, along with the bond registered on the Icelandic Stock Exchange, will also move to Skipti hf. The date of the de-merger is 31st of October according to the balance sheet enclosed.

Stjórnin hefur sett fram áætlun um skiptingu félagsins í samræmi við 120. gr. laga nr. 2/1995, um hlutafélög.

The board of directors has put forward a schedule on the de-merger in accordance with the Public Limited Companies Act no. 2/1995, Article 120.

Stjórnir félaganna hafa metið eignir og skuldir félaganna og er stuðst við það mat við ákvörðun skiptahlutfalla.

The boards of directors in both the companies have valued the assets and liabilities of the companies and that valuation is suggestive with the determination of the de-merger ratio.

Við skiptinguna fá hluthafar í Símanum hf. eingöngu hluti að nafnverði kr. 7.000.000.000 eða allt hlutafé í Skipti hf. í skiptum fyrir hlutabréf sín að nafnverði kr. 30.400.398.440 í Símanum hf.

The shareholders of Siminn hf. shall receive all shares in Skipti hf., at the nominal value 7.000.000.000 ISK, in return for their shares in Siminn hf., nominal value 30.400.398.440 ISK. The shareholders do not receive any other return for their shares in Siminn hf.

Engin vandkvæði fylgja ákvörðun endurgjalds enda liggur matsverð eigna fyrir og svo er skiptingin einnig mjög einföld að því leyti að hluthafar og eignarhlutfall þeirra í Skipti hf. verða nákvæmlega eins og var í Símanum hf. fyrir skipti.

There are no complications in deciding the return since both the value of assets is clear and the de-merger is straightforward insofar that the shareholders and their ownership in Skipti hf. will be exactly the same as they used to be in Siminn hf. before the de-merger.

Meðfylgjandi er kannaður efnahagsreikningur vegna skiptingarinnar sem miðaður er við 31. október 2006 svo og drög að upphafsefnahagsreikningum fyrir Skipti hf. miðað við sama tíma.

Enclosed are the reviewed de-merger accounts, dated 31st of October 2006 and the draft of the initial balance sheet of Skipti hf. at the same time.

Reykjavík, 19. desember 2006.

Stjórn Símans hf.
(The board of directors in Siminn hf.)

Reykjavík 19. desember 2006.

Stjórn Símans hf.
The board of directors in Siminn hf.

Efni: Skýrsla endurskoðanda vegna skiptingar Símans hf.
Subject: Appraisers report on the de-merger of Siminn hf.

Að beiðni yðar höfum við farið yfir skiptingaráætlun Símans hf., dags. 19. desember 2006 sem stjórn Símans hf. undirritar, og greinargerð stjórnar félagsins með henni. Með greinargerðinni er skiptingarefnahagsreikningur og drög að upphafsefnahagsreikningi hins skipta félags og viðtökufélags, miðað við 31. október 2006. Skiptingin er í samræmi við ákvæði laga um hlutafélög.

At your request we have reviewed the de-merger schedule made by the board of directors in Siminn hf., dated 19th of December 2006, which the board signs along with the board's exposition. With the exposition the de-merger accounts are enclosed, dated 31st of October. The de-merger is in accordance with the law on Public limited liability companies.

Í skiptingaráætlun er gert ráð fyrir að hluthafar í Símanum hf. fái eingöngu hluti að nafnverði kr. 7.000.000.000 eða allt hlutafé í Skipti hf. í skiptum fyrir hlutabréf sín að nafnverði kr. 30.400.398.440 í Símanum hf. Gert er ráð fyrir að hlutafé Símans lækki í skiptingunni um kr. 20.341.722.706.

In the de-merger schedule it is assumed that the shareholders of Siminn hf. will only receive shares, at nominal value 7.000.000.000 ISK, which is all shares in Skipti hf., in return for their shares in Siminn hf., at nominal value 30.400.398.440 ISK. It is anticipated that the share capital of Siminn hf. will be lowered by 20.341.722.706 ISK at the time of the de-merger.

Það er álit okkar að skiptihlutfall það sem gert er ráð fyrir í skiptingaráætlun félaganna sé eðlilegt og sanngjarnt. Í því sambandi er rétt að benda á að það verða nákvæmlega sömu hluthafar í Skipti hf. eftir skipti og í Símanum hf. fyrir skipti og munu eignarhlutföll þeirra einnig verða nákvæmlega þau sömu í Skipti hf. eftir skipti og þau voru í Símanum hf. fyrir skipti.

It is our opinion that the return rate in the de-merger schedule is normal and fair. In that context it is pointed out that the shareholders of Skipti hf. after the de-merger are exactly the same as in Siminn hf. before the de-merger, in the same proportions.

Að okkar áliti mun skiptingin ekki rýra möguleika lánardrottna á fullnustu krafna sinna hjá félögunum.

In our opinion the de-merger will not affect creditors of the companies.

Virðingarfyllst,

Deloitte hf.

Hilmar Alfreðsson,
endurskoðandi

Áritun endurskoðenda

Til stjórnar Símans hf.

Við höfum kannað meðfylgjandi skiptingarefnahagsreikning Símans hf. dags. 31. október 2006, en hann er byggður á árshlutauppgjöri félagsins, dagsett 31. október 2006 og ákvörðun stjórnar um skiptingu. Efnahagsreikningurinn er saminn í samræmi við ákvæði XIV. kafla laga nr. 5/1995, um hlutafélög, og sýnir þær breytingar sem álitið er að skiptingin muni hafa í för með sér og upphafsefnahagsreikning Símans hf. og Skipta hf. eftir skiptingu. Upphafsefnahagsreikningar eru lagðir fram af stjórnendum félaganna og á ábyrgð þeirra í samræmi við lög og reglur.

Að teknu tilliti til framangreindra atriða og með vísan til XIV. kafla laga nr. 5/1995, um hlutafélög þá leiddi könnun okkar ekki annað í ljós en að efnahagsreikningurinn gefi glögga mynd af eignum og skuldum beggja félaganna, þeim breytingum sem samruninn hefur í för með sér og upphafsefnahagsreikningum Símans hf. og Skipta hf.

Reykjavík, 19. desember 2006.

Deloitte hf.

Hilmar A. Alfreðsson
endurskoðandi

Síminn hf. Skiptingarefnhagsreikningur og upphafsefnahagsreikningur 31. október 2006

Eignir

	Síminn hf.		Síminn hf		Skipti hf.
	Fyrir skipti	Millifærslur	Eftir skipti	Millifærslur	Eftir skipti
Fastafjármunir					
Varanlegir rekstrarfjármunir	17.397.601		17.397.601		
Óefnislegar eignir	57.778.869	(1.161.210)	56.617.659	0	1.161.210
Eignarhlutir í hlutdeildarfélögum	425.440	(404.889)	20.551	0	404.889
Eignarhlutir í dótturfélögum	1.955.584	(1.703.219)	252.365	24.395.311	26.098.530
Eignarhlutir í öðrum félögum	1.433.829	(1.433.829)	0	0	1.433.829
Fastafjármunir	78.991.323	(4.703.147)	74.288.176	24.395.311	29.098.458
Veltufjármunir					
Birgðir	291.085	0	291.085	0	0
Viðskiptakröfur	3.706.339	0	3.706.339	0	0
Aðrar skammtímakröfur	834.230		834.230	15.025.487	15.025.487
Handbært fé	83.010	0	83.010	0	0
Veltufjármunir	4.914.664	0	4.914.664	15.025.487	15.025.487
Eignir alls	83.905.987	(4.703.147)	79.202.840	39.420.798	44.123.945

Eigið fé og skuldir

	Síminn hf. Fyrir skipti	Millifærslur	Síminn hf Eftir skipti	Millifærslur	Skipti hf. Eftir skipti
Eigið fé					
Hlutafé	30.929.802	(20.341.722)	10.588.080		
Hlutafé			0	7.000.000	7.000.000
Varasjóður	353.429	0	353.429	0	0
Þýðingarmunur	36.902	0	36.902	0	0
Annað eigið fé	(937.711)	15.638.575	14.700.864	17.395.311	22.098.458
Eigið fé samtals	30.382.422	(4.703.147)	25.679.275	24.395.311	29.098.458
Skuldir					
Langtímaskuldir					
Tekjuskattsskuldbinding	456.165	0	456.165	0	0
Skuldabréfalán	46.996.536		46.996.536	15.025.487	15.025.487
Langtímaskuldir	47.452.701	0	47.452.701	15.025.487	15.025.487
Skammtímaskuldir					
Næsta árs afborganir langtímaskulda	2.669.324	0	2.669.324	0	0
Bankalán	701.266	0	701.266	0	0
Viðskiptaskuldir	1.252.859	0	1.252.859	0	0
Aðrar skammtímaskuldir	1.447.415	0	1.447.415	0	0
Skammtímaskuldir	6.070.864	0	6.070.864	0	0
Skuldir alls	53.523.565	0	53.523.565	15.025.487	15.025.487
Eigið fé og skuldir alls	83.905.987	(4.703.147)	79.202.840	39.420.798	44.123.945

Fjárhæðir eru í þúsundum króna

DEMERGER SCHEDULE OF SÍMINN HF., FJARSKIPTANETID EHF. AND JÖRFI EHF.

Síminn hf., Fjarskiptanetið ehf. og Jörfi ehf.

Gögn um skiptingu Símans hf. Viðtökufélög eru Fjarskiptanetið ehf. og Jörfi ehf.

Documents regarding the de-merger of Síminn hf. The two companies formed by the de-merger are Fjarskiptanetið ehf. and Jörfi ehf.

Efnisyfirlit

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SKIPTINGARÁÆTLUN
De-Merger Schedule

Stjórn Símans hf., kt. 500269-6779, Ármúla 25, 150 Reykjavík, samþykkir eftirfarandi um skiptingu félagsins:

The board of directors in Siminn hf., Corporate ID-No. 500269-6779, Ármúla 25, 150 Reykjavík have agreed upon the following de-merger schedule:

1. Stjórn Símans hf. samþykkir að skipta félaginu á grundvelli 133. gr. laga nr. 2/1995, um hlutafélög. Við skiptinguna færast fasteignir félagsins ásamt tilteknum skuldum yfir í Jörfa ehf. og fjarskiptanet félagsins, viðskiptavild tengt því ásamt tilteknum skuldum færast í Fjarskiptanetið ehf. Hin nýju félög eru stofnuð við skiptingu félagsins. Skiptingin kemur til framkvæmda og miðast við þann 1. nóvember 2006.

   The board of directors in Siminn hf. agrees to de-merge the company in accordance with the Public Limited Liability Act no. 2/1995, Article 133. By the de-merger the company's real estate assets and connected liabilities will be moved into Jörfi ehf. and the telecommunications network, good will and connected liabilities into Fjarskiptanetið ehf. The new companies are founded by the de-merger. The date of the de-merger is the 1st of November 2006 according to the balance sheet enclosed.

2. Ekkert endurgjald verður greitt fyrir eignir umfram skuldir, sem renna til viðtökufélaganna heldur mun hlutafé Símans hf. skiptast á milli Símans hf., Fjarskiptanetsins ehf. og Jörfa ehf. Hluthafar í Símanum hf. verða hluthafar í Fjarskiptanetinu ehf. og Jörfa ehf. í hlutfalli við hlutafjáreign sína eftir skiptingu Símans hf. m.v. 31. október 2006, sbr. 7. gr. hér á eftir. Hlutafé sem rennur yfir í viðtökufélögin nemur kr. 3.500.000.000, en í hlutafé í Símanum hf. verður kr. 7.088.079.720 eftir skiptinguna, en var fyrir kr. 10.588.079.720 eftir fyrrgreinda skiptingu m.v. 31. október 2006.

   No return is paid for the assets, which are moved into the receiving companies, but the share capital of Siminn hf. will be divided between Siminn hf., Fjarskiptanetið ehf. and Jörfi ehf. The shareholders of Siminn hf. are the shareholders of Fjarskiptanetið ehf. and Jörfi ehf. in the same proportion as in Siminn hf. after the first de-merger of Siminn hf., effective the 31st of October 2006. The share capital, moved to the receiving companies, is of nominal value 3.500.000.000 ISK and the share capital in Siminn hf. will be 7.088.079.720 ISK after the de-merger but was before the de-merger 10.588.079.720 ISK after the before mentioned earlier de-merger, effective 31st of October 2006.

3. Réttur hluthafa til arðs verður óbreyttur frá því sem verið hefur til 1. nóvember 2006, en frá þeim tíma er réttur til arðs hjá hverju hinna nýju félaga um sig.

   The shareholders shall have all the same rights, including right to dividends, shall be unchanged until the formal day of the de-merger or 1st of November. From that day the rights have divided to the three companies.

4. Enginn hluthafi nýtur sérréttinda í félögunum við skiptinguna. Ekki verða gerðar neinar ráðstafanir í tengslum við skiptinguna til hagsbóta eigendum hlutabréfa og skuldabréfa í Símanum hf.

No shareholder shall be in a preferred position nor enjoy any special rights in the companies by the de-merger. The de-merger will not establish any special measure for the benefit of the shareholders or owners of bond issued by Siminn hf.

5. Reikningsleg skipting Símans hf. skal miðast við 1. nóvember 2006.

   The formal date of the de-merger according to the enclosed balance sheet shall be 1st of November 2006.

6. Stefnt skal að því, að ákvörðun um skiptingu félagsins verði tekin til afgreiðslu á hluthafafundi í Símanum hf. fyrir lok mars 2007.

   It is estimated that shareholders meeting will formally decide on the de-merger no later than the end of March 2007.

7. Sá fyrirvari er gerður vegna skiptingar þessarar að nauðsynleg forsenda þess að óskað sé eftir samþykki hluthafafundar er að fyrri skipting Símans, dags. 19. desember 2006, m.v. 31. október 2006 (sjá meðfylgjandi afrit) hafi verið samþykkt.

   It is noted that this de-merger will not be taken into consideration by the shareholders meeting if the de-merger of Siminn hf., dated 19th of December 2006, effective 31st of October 2006 (see also enclosed copy), is not accepted.

8. Til staðfestingar á skiptingaráætlun þessari undirritar stjórn Símans hf. hana með fyrirvara um tilskilið samþykki hluthafafundar og tekur skiptingin gildi við þá staðfestingu.

   As confirmation of this de-merger schedule the board of directors in Siminn hf. shall sign below with the provisionally that the shareholders meeting shall confirm it and by such a confirmation the de-merger shall become active.

Reykjavík, 19. desember 2006

Í stjórn Símans hf.:
(The board of directors in Siminn)

Greinargerð stjórnar Símans hf. um skiptingaráætlun
Board of Directors De-Merger Exposition

Í samræmi við 121. gr. laga nr. 2/1995, um hlutafélög, setur stjórn Símans hf. fram eftirfarandi greinargerð um skiptingu félagsins:

In accordance with the Public Limited Companies Act no. 2/1995, Article 121, the board of directors puts forward the following exposition:

Sérstök félög, Fjarskiptanetið ehf. og Jörfi ehf., eru stofnuð í skiptingunni af hluthöfum í Símanum hf. í sömu eignarhlutföllum og hlutafjáreign segir til um eftir fyrri skiptingu félagsins. Félögin munu taka við hluta af eignum Símans hf. og er gert ráð fyrir að skiptingin miðist við 1. nóvember 2006.

Two companies, Fjarskiptanetið ehf. and Jörfi ehf. are established in the de-merger by the shareholders of Siminn hf. in the same proportion as in Siminn hf. as it will be after the first de-merger of the company. The two companies will receive part of the assets of Siminn hf. and it is anticipated that the de-merger is dated the 1st of November 2006.

Stjórnin hefur sett fram áætlun um skiptingu félagsins í samræmi við 120. gr. laga nr. 2/1995, um hlutafélög.

The board of directors has put forward a schedule on the de-merger in accordance with the Public Limited Companies Act no. 2/1995, Article 120.

Líkt og fram kemur í skiptingaráætluninni er ekki gert ráð fyrir, að endurgjald verði greitt fyrir eignir umfram skuldir, sem renna til hinna nýju félaga, heldur muni hluti af eigin fé Símans hf. verða hluti af eigin fé Fjarskiptanetsins ehf. og Jörfa ehf.

As stated in the de-merger schedule it is not assumed that any return is paid for the for the assets additional to liabilities, which are moved into the receiving companies, but the share capital of Siminn hf. will become part of the share capital in Fjarskiptanetið ehf. and Jörfi ehf.

Hlutafé Símans hf. skiptist á milli Símans hf., Fjarskiptanetið ehf. og Jörfi ehf. Hluthafar í Símanum hf. verða hluthafar í Fjarskiptanetinu ehf. og Jörfi ehf. í hlutfalli við hlutafjáreign sína eftir fyrri skiptingu félagsins m.v. 31. október 2006.

The share capital of Siminn hf. will be divided between Siminn hf., Fjarskiptanetið ehf. and Jörfi ehf. The shareholders of Siminn hf. will become the shareholders of Fjarskiptanetið ehf. and Jörfi ehf. in the same proportion as in Siminn hf. as it will be after the first de-merger of the company effective the 31st of October.

Reykjavík, 19. desember 2006

Í stjórn Símans hf.:
(The board of directors in Siminn)

Reykjavík 19. desember 2006.

Stjórn Símans hf.

The board of directors in Siminn hf.

Efni: Skýrsla endurskoðanda vegna seinni skiptingar Símans hf.

Subject: *Appraisers report on the second de-merger of Siminn hf.*

Að beiðni yðar höfum við farið yfir skiptingaráætlun Símans hf., dags. 19. desember 2006 sem stjórn Símans hf. undirritar, og greinargerð stjórnar félagsins með henni. Með greinargerðinni er skiptingarefnahagsreikningur og drög að upphafsefnahagsreikningi hins skipta félags og viðtökufélags, miðað við 1. nóvember 2006. Skiptingin er í samræmi við ákvæði laga um hlutafélög.

At your request we have reviewed the de-merger schedule made by the board of directors in Siminn hf., dated 19th of December 2006, which the board signs along with the board's exposition. With the exposition the de-merger accounts are enclosed, dated 1st of November. The de-merger is in accordance with the law on Public limited liability companies.

Félögin í skiptingunni eru í eigu sömu aðila, í sömu eignarhlutföllum, og kemur því ekki til sérstaks mats á skiptihlutfalli hlutafjárins.

All companies in the de-merger are owned by the same shareholders, in the same proportions, and thus there is not need to evaluate the return specifically.

Rétt er að benda á að það verða nákvæmlega sömu hluthafar í Fjarskiptanetið ehf. og Jörfi ehf. eftir skipti og í Símanum hf. fyrir skipti og munu eignarhlutföll þeirra einnig verða nákvæmlega þau sömu í Fjarskiptanetið ehf. og Jörfi ehf. eftir skipti og þau voru í Símanum hf. fyrir skipti.

It is pointed out that the shareholders of Fjarskiptanetið ehf. and Jörfi ehf. after the de-merger are exactly the same as in Siminn hf. before the de-merger, in the same proportions.

Að okkar áliti mun skiptingin ekki rýra möguleika lánardrottna á fullnustu krafna sinna hjá félögunum.

In our opinion the de-merger will not affect creditors of the companies.

Virðingarfyllst,

Deloitte hf.

Hilmar Alfreðsson,
endurskoðandi

Síminn hf. Skiptingarefnhagsreikningur og upphafsefnahagsreikningur 1. nóvember 2006

Eignir

	Síminn hf Fyrir skipti	Millifærslur	Millifærslur	Jörfi ehf. Eftir skipti	Fjarskiptanetið ehf. Eftir skipti	Síminn hf Eftir skipti
Fastafjármunir						
Varanlegir rekstrarfjármunir	17.397.601	(8.855.972)	(4.402.634)	4.402.634	8.855.972	4.138.995
Óefnislegar eignir	56.617.659	(10.300.000)		0	10.300.000	46.317.659
Eignarhlutir í hlutdeildarfélögum	20.551	0				20.551
Eignarhlutir í dótturfélögum	252.365	0		0	0	252.365
Fastafjármunir	74.288.176	(19.155.972)	(4.402.634)	4.402.634	19.155.972	50.729.570
Veltufjármunir						
Birgðir	291.085	0				291.085
Viðskiptakröfur	3.706.339	0				3.706.339
Aðrar skammtímakröfur	834.230	0				834.230
Handbært fé	83.010	0				83.010
Veltufjármunir	4.914.664	0	0	0	0	4.914.664
Eignir alls	79.202.840	(19.155.972)	(4.402.634)	4.402.634	19.155.972	55.644.234

Eigið fé og skuldir

	Síminn hf Fyrir skipti	Millifærslur	Millifærslur	Jörfi ehf. Eftir skipti	Fjarskiptanetið ehf. Eftir skipti	Síminn hf Eftir skipti
Eigið fé						
Hlutafé	10.588.080	(3.000.000)	(500.000)	500.000	3.000.000	7.088.080
Varasjóður	353.429	0		0	0	353.429
Þýðingarmunur	36.902	0		0	0	36.902
Annað eigið fé	14.700.864	(759.972)	(160.634)	160.634	759.972	13.780.258
Eigið fé samtals	25.679.275	(3.759.972)	(660.634)	660.634	3.759.972	21.258.669
Skuldir						
Langtímaskuldir						
Tekjuskattsskuldbinding	456.165	0				456.165
Skuldabréfalán	46.996.536	(15.396.000)	(3.742.000)	3.742.000	15.396.000	27.858.536
Langtímaskuldir	47.452.701	(15.396.000)	(3.742.000)	3.742.000	15.396.000	28.314.701
Skammtímaskuldir						
Næsta árs afborganir langtímaskulda..........	2.669.324	0				2.669.324
Bankalán..	701.266	0				701.266
Viðskiptaskuldir...	1.252.859	0				1.252.859
Aðrar skammtímaskuldir............................	1.447.415	0				1.447.415
Skammtímaskuldir	6.070.864	0	0	0	0	6.070.864
Skuldir alls	53.523.565	(15.396.000)	(3.742.000)	3.742.000	15.396.000	34.385.565
Eigið fé og skuldir alls	79.202.840	(19.155.972)	(4.402.634)	4.402.634	19.155.972	55.644.234

Fjárhæðir eru í þúsundum króna

SUBSCRIPTION FORM

SUBSCRIPTION FORM

Shares in Skipti hf. – Subscription exceeding ISK 25 million – March 2008

The undersigned (hereinafter referred to as the "Investor") hereby subscribes for shares in Skipti hf. (hereinafter referred to as "Skipti"), ID-No. 460207-0880, Ármúli 25, Reykjavík, Iceland, for the amount and at the price specified below and in accordance with the terms specified below and to the terms and other aspects of the Share Securities Note of Skipti of 4 March 2008, sold by Kaupthing Bank hf., ID-No. 560882-0419, Borgartún 19, Reykjavík, Iceland, and Exista hf., ID-No. 610601-2350, Ármúli 3, Reykjavík, Iceland (hereinafter referred to as the "Offerors") in the share offering. This subscription represents an offer by the Investor and is legally binding on him/her. However, the subscription is not binding on the Offerors until they have approved the subscription.

Nominal value (ISK) X Price = Purchase value (ISK)

Name of the Investor ____________________ ID-No. ____________

Legal domicile, postal code and city ____________________

Fax number ____________ E-mail address ____________

The Investor declares that he/she has familiarised himself/herself with, understood and agreed with the terms and other aspects of each of the three independent documents, i.e. the Summary, the Share Registration Document and the Share Securities Note, that form Skipti's Prospectus published 4 March 2008, including the Offerors' right to reject the subscription in full or in part, in case the Investor does not subscribe for the amount of shares which he/she has been allocated during the book building process. The Offerors furthermore reserve the right not to allocate to the Investor the shares that he/she has subscribed for and not to allocate proportionately the same amount of shares to individual investors. Investors who have expressed an interest in participating in the share offering by means of a declaration thereon and who have not been rejected by the Offerors shall be allocated a specific amount according to a decision of the Offerors, no later than 12:00 GMT on Friday 14 March 2008. Skipti's Prospectus published 4 March 2008 shall be considered part of this subscription.

Kaupthing Bank hf. is the manager of the share offering (the "Manager"). The Investor acknowledges that he/she has been clearly informed that the Manager is not required to assess whether participation in the share offering and acquisition of shares in Skipti is appropriate for him/her and therefore he/she does not benefit from the protection provided for in Article 15 of the Icelandic Act on Securities Transaction no. 108/2007. The Investor confirms that he/she has the necessary knowledge of business and finance to be able to assess the investments which he/she has subscribed for and assess the risk involved in acquiring shares in Skipti. Furthermore, the Investor declares that he/she has read and understood the Manager's conflicts of interest policy and is aware of all potential conflicts of interest disclosed in the Share Securities Note and other documents contained in the Prospectus in accordance with Article 8 of the Icelandic Act on Securities Transaction no. 108/2007.

This Subscription form constitutes the entire agreement between the Investor and the Offerors. The Investor confirms that his subscription for shares in Skipti is entirely based on information contained in Skipti's Prospectus published 4 March 2008.

Subscription in the share offering shall be delivered after the allocation of subscription and no later than 16:00 GMT on Friday 14 March 2008. All binding subscriptions shall be made on the "Subscription form" which constitutes this page. In order for the Investor's subscription to be valid the Investor must sign the Subscription form. An Investor signing on behalf of legal entities guarantees that he/she is authorised to assume on behalf of the legal entity the obligations contained in this Subscription form.

The Subscription form shall be delivered in an envelope marked "Skipti – Share offering" to the front desk of Kaupthing Bank hf. at Borgartún 19 in Reykjavík or by fax on +354-444-6809 or by e-mail at skipti.subscription@kaupthing.com. If sent by fax or e-mail, verification of the transmission shall be received by the Manager prior to the deadline specified above and the original then mailed to the Manager in an envelope marked according to the above.

If the subscription by the Investor is approved then the Investor shall pay the committed amount to Kaupthing Bank hf. no sooner than after 10:00 GMT on 19 March 2008 and no later than 16:00 GMT on Wednesday 26 March 2008 into account number 300-26-1020, ID-No. 560882-0419. If payment is not received on time or in the correct manner the debt may be collected in accordance with the law, including penalty interest and other costs of collection. Instead of resorting to collection measures, the Offerors unilaterally reserve the right to alternatively invalidate the unpaid subscription without warning or notice or allocate it to a third party.

The shares in Skipti that will be sold upon completion of the share offering are issued electronically at the ISD. Delivery against cash payment for the offered shares pursuant to the share offering will take place on 26 March 2008 before 17:00 GMT. Such offered shares will be delivered in book-entry form on the closing date to the investor's accounts with ISD.

Any dispute arising from this subscription may be heard before Reykjavík District Court (Héraðsdómur Reykjavíkur). This subscription is governed by Icelandic law.

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Place and date **On behalf of Investor**

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www.kaupthing.is

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