EXISTA

ANNUAL REPORT 2007

HIGHLIGHTS OF 2007

A YEAR OF SOLID OPERATING PERFORMANCE

After-tax profit **€574 million**, up **35%**

Earnings per share **5.11 cents**, up **19%**

Return on equity **23%**

A YEAR OF SOUND ECONOMIC GROWTH

Total assets increased by **82%** to **€8.0 billion**
Shareholders’ equity increased by **25%** to **€2.4 billion**

A YEAR OF STRATEGY EXECUTION

Exista has enhanced its position as a significant player in financial services in the Nordic region

EXISTA

TABLE OF CONTENTS

Annual Report 2007

FINANCIAL HIGHLIGHTS

INCOME STATEMENT	2007	2006
Financial assets designated at fair value	0.8	357.6
Financial assets held for trading	-46.3	129.0
Dividend	12.6	78.7
Interest revenue	91.2	50.3
Insurance premium	129.0	73.6
Share of profits of associates	756.2	0.0
Other revenues	17.9	7.6
Total revenues	**961.5**	**696.7**
Total expenses	-169.9	-109.6
Profit before financial expenses	**791.7**	**587.1**
Total financial expenses	-266.0	-150.5
Profit before tax	**525.7**	**436.6**
Income tax	48.2	-9.9
Profit for the year	**573.9**	**426.7**

Amounts in EUR millions

BALANCE SHEET	31 DEC 2007	31 DEC 2006
Assets		
Financial assets at fair value through profit or loss	1,123.4	2,272.7
Financial assets held for trading	210.2	837.0
Loans and receivables	785.0	703.8
Goodwill and other intangible assets	469.4	464.8
Investments in associates	4,737.6	0.0
Reinsurance assets	10.1	15.8
Investment properties	70.1	0.0
Property and equipment	27.6	12.2
Cash and equivalents	567.6	76.1
Other assets	9.5	12.6
Total assets	**8,010.5**	**4,395.1**
Equity		
Share capital	120.6	112.3
Reserves	736.3	720.7
Retained earnings	1,511.3	1,061.3
Equity attributable to equity holders of the Parent	**2,368.1**	**1,894.3**
Minority interest	0.6	5.9
Total equity	**2,368.7**	**1,900.2**
Liabilities		
Borrowings	5,123.7	2,183.0
Hybrid securities	250.0	0.0
Technical provision	221.5	223.9
Deferred income tax liability	18.8	60.2
Other liabilities	27.8	27.8
Total liabilities	**5,641.8**	**2,494.9**
Total equity and liabilities	**8,010.5**	**4,395.1**

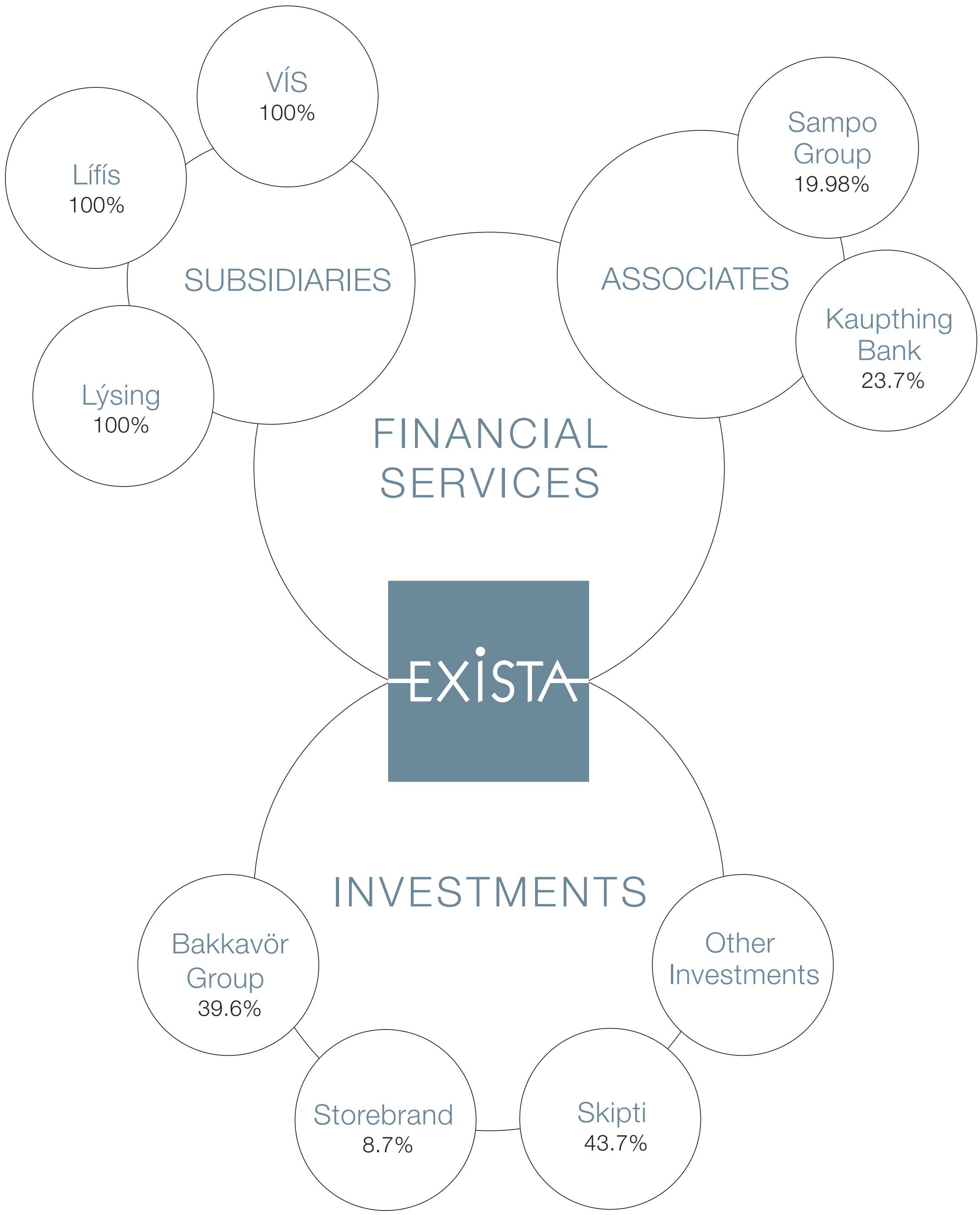
Amounts in EUR millions

WE ARE A FINANCIAL SERVICES GROUP
WITH KEY HOLDINGS IN SOME OF THE NORDIC COUNTRIES'
MOST PROGRESSIVE FINANCIAL COMPANIES.

WE RUN OUR OWN MARKET-LEADING
INSURANCE AND ASSET FINANCE BUSINESSES.

IN ADDITION, WE OWN MAJOR STAKES IN SEVERAL OTHER
OUTSTANDING NON-FINANCIAL COMPANIES.

WE INVEST IN GOOD BUSINESSES
THAT WE BELIEVE HAVE THE POTENTIAL
TO BECOME EVEN BETTER.


VÍS
100%
Lífís
100%
SUBSIDIARIES
Lýsing
100%
Sampo
Group
19.98%
ASSOCIATES
Kaupthing
Bank
23.7%
FINANCIAL
SERVICES
EXISTA
INVESTMENTS
Bakkavör
Group
39.6%
Other
Investments
Storebrand
8.7%
Skipti
43.7%

LETTER TO SHAREHOLDERS

Dear Investment Partners,

Exista's profit for the year 2007 was 574 million euros, and earnings per share were 5.11 euro cents, up 19% from the previous year. Return on equity was 23%. Based on these figures, the financial results for the year were quite satisfactory. However, we do not intend to pretend we are content with the return to our shareholders, which was negative by 9% in 2007, after accounting for dividends. We consider this unacceptable. At the same time, we must look at it in a broader perspective. In the second half of 2007 and into 2008, the instability in the global financial markets has presented real challenges to financial companies the world over.

2007 was an eventful year for Exista. The Group developed at a rapid pace and made some important strategic moves. While shareholders' return was not acceptable for the year, we have continued our mission to build the foundation for long-term shareholder value. We believe that the steps we took during the year will substantially strengthen Exista and create significant shareholder value in the future.

During the year we took important steps toward establishing Exista as a major player in the financial services sector in Northern Europe. We acquired close to a 20% stake in the leading pan-Nordic insurance underwriter Sampo Group. We also increased our share to 8.7% in the Norwegian company Storebrand, which is becoming a leading life insurance and pension provider in the Nordic region. We believe that these investments, together with our 23.7% holding in the Northern European financial institution Kaupthing Bank, place Exista in a truly unique position among regional financial services groups. We are convinced that we are well prepared to take advantage of future opportunities in our sector.

Within Exista we have an exceptional group of top-quality businesses, which once again showed strong performance and good profitability in the past year. Our financial services subsidiaries, VÍS, Lífís and Lýsing, returned solid operating performances in 2007 and maintain a strong position in their respective markets. Our financial services associates, Sampo Group and Kaupthing Bank, delivered robust results in 2007 despite an operating environment that was extremely challenging for financial institutions. And our other investments, including Bakkavör Group, Storebrand and Skipti, are companies that enjoy leading market positions and returned solid profits once again in 2007. We are extremely proud of this outstanding group of companies, and we truly believe they are exemplary in their respective areas of business.

Financial services group

Since listing Exista in 2006, we have emphasised that we are a financial services group, not merely an investment company. There is a fundamental difference between the two, and we want to stress this point again.

We have the advantage of having strong operating companies within the Group. These are VÍS, Iceland's largest insurance underwriter; the life insurer Lífís; and the country's leading asset financing company, Lýsing. These regulated companies are market leaders that create a core for the Group's activities and generate solid underlying cash flow.

The operating activities are important, for instance, in the context of the Group's funding activities. In 2007, our funding was primarily on an unsecured basis, with the underlying cash flow of the Group forming the foundation for loan agreements. We have established solid relationships with financial institutions around the world, and we make a concerted effort to nurture those relationships. Our funding structure reflects our status as a financial services group. In falling equity markets, it is of fundamental importance for both borrower and lender that liabilities be based on underlying cash generation rather than solely on collateral in equities or other assets, as is the case with pure investment companies. This has greatly enhanced the Group's access to ample liquidity at a time when the supply of wholesale funding has tightened.

Financial services are behind the bulk of our income, as well as our assets. Our insurance and asset finance subsidiaries add stable interest and premium income to our revenue base. In addition, we hold two financial associates, Kaupthing Bank and Sampo Group. Associates are accounted for by our share in their profits. We are

DURING THE YEAR WE TOOK IMPORTANT STEPS TOWARD ESTABLISHING EXISTA AS A MAJOR PLAYER IN THE FINANCIAL SERVICES SECTOR IN NORTHERN EUROPE.

Ágúst Gudmundsson *Lýdur Gudmundsson*

the leading shareholder in both Kaupthing Bank and Sampo, which are long-term strategic holdings in financial services. Reporting those holdings as associates demonstrates our commitment to the companies and to the financial services sector.

The market value of our associates fluctuated widely in 2007. Though market value exceeded book value throughout the first half of the year, the global turbulence in the second half of the year caused the market value of our holdings to fall well below book value. Given these companies' strong operating results, it is clear that their stock price deteriorated because of general market fluctuations rather than any weakness in their operations. This, of course, is the main purpose of equity accounting for associates: to reduce the impact of market volatility on the accounts and emphasise the real operational qualities of long-term assets with strong fundamentals.

An international investor

While our financial services subsidiaries and associates constitute the core of our operations, Exista is also a significant international investor. We hold high-quality investments, such as Bakkavör Group, which enjoys a leading position in fresh prepared foods, one of the fastest-growing sectors of the global food market. In recent years, Bakkavör Group has demonstrated strong operational performance coupled with a targeted growth strategy. This was also the case in 2007, despite an extremely challenging external environment for raw materials, which saw significant price appreciation.

The telecommunications company Skipti, the parent company of Iceland Telecom, is a stable and solid business that has systematically expanded its operations outside its home market. We continue to believe that Skipti has substantial potential because of its sound operational foundation and broad-based technical expertise.

In our investment approach, we tend to be daring yet conservative. We are daring in that we take rather large stakes in companies that we consider fairly priced or undervalued, yet we are conservative in our approach to the business fundamentals of the companies in which we invest. Our investments must meet our criteria for sound financial qualities, a promising market position, and competent management.

While our investment strategy is to invest in listed and unlisted companies that meet our requirements for operational qualities, it is clear that there will be times when we will be active in our investments and other times when we will not invest at all. We take a long-term perspective on everything we do, and we intend to bide our time and wait for the right opportunities to emerge. In addition, we do not have a defined time horizon for our investments in listed or unlisted companies. Good assets that return the cash flow we desire and are aligned with our broader Group objectives are likely to remain in our portfolio for a long time.

In recent months we have reduced the risk profile of the Group and discontinued short-term proprietary trading activities. At the same time, we have further bolstered the Group's ancillary activities, such as centralised risk management, liquidity management, and funding. We have also established a separate research unit that conducts analysis of investment opportunities and markets, thus underpinning Exista's further development in the financial services sector, as well as supporting the Group's other investments.

Shareholder value

In our minds, Exista is primarily a partnership of shareholders. We are here together as partners, sharing the common goal of enhancing the value of our assets for the long term. As leading shareholders in Exista, we have the primary objective of creating healthy long-term returns for all investment partners. We have invested our personal wealth in Exista, and we are determined to create above-average returns on that investment for the future.

Fluctuations in financial markets are inevitable, and Exista's share price has suffered recently as a result of market volatility. However, it is of primary importance that we have created the foundations to withstand adversity so that we can benefit fully when markets recover again. Exista has truly demonstrated the strength of its

EXISTA HAS TRULY DEMONSTRATED THE STRENGTH OF ITS FUNDAMENTALS DURING THESE TURBULENT TIMES. THIS IS BECAUSE OF THE UNDERLYING QUALITY OF EXISTA'S OPERATIONS AND THE STRENGTH OF THE COMPANIES IN WHICH THE GROUP HAS MAJOR INTERESTS.

fundamentals during these turbulent times. This is because of the underlying quality of Exista's operations and the strength of the companies in which the Group has major interests.

The future

Exista's growth over the past six years is no coincidence. The Group's development has been planned and systematic, and it will continue to be so. A number of important steps in this development were taken in 2007, in terms of creating the foundation for profitable growth in the future. At the same time, it is important that the Group remain dynamic and flexible enough to respond appropriately to a challenging external environment.

We foresee that Exista will become a participant in and a beneficiary of future restructuring in the financial services sector in Northern Europe. When, how, and where that will happen remains to be seen. Given the current global environment, this development may actually take place later than otherwise would have been the case. However, patience is a virtue, and when such restructuring occurs it may open up even more opportunities for Exista and create significant value for its shareholders.

This will help us fortify the strong foundation on which Exista rests. At the same time, we are determined to take the time and measures necessary to ensure the healthy growth of the Group, creating ample long-term returns for all of us, as shareholders and investment partners.

Lýdur Gudmundsson *Ágúst Gudmundsson*

EXISTA SHARES

Exista shares are listed on the OMX Nordic Exchange in Iceland. As of 31 December 2007, the total number of issued shares in Exista was 11,361,092,458. All shares in Exista are of the same class and carry equal rights. Each share has a nominal value of ISK 1.00.

Exista shares are all issued electronically at the Icelandic Securities Depository (ISD) and are registered there under the name of the shareholder or a nominee. As of 31 December 2007, the total number of Exista shareholders was 29,663.

Development of Exista shares

Exista's total market capitalisation at year-end 2007 amounted to EUR 2.5 billion, making it the fourth-largest company listed on the OMX Nordic Exchange in Iceland. At year-end 2007, Exista's share price was ISK 19.75, as opposed to ISK 22.5 at the end of 2006. During the year 2007, the high and low share prices were 40.25 and 17.85 respectively.

Total turnover in 2007 amounted to EUR 2.2 billion, corresponding to a turnover rate of 58%. Average daily trading volume amounted to EUR 9.2 million during 2007. At year-end 2007 the price-to-earnings ratio (P/E) was 4.29, and the price-to-book ratio (P/B) was 1.04. The share statistics table for the year 2007 sets forth the high, low, and month-end closing prices of Exista shares on the OMX Nordic Exchange in Iceland for the periods indicated. The average daily trading volume is included as well.

CODES ASSIGNED TO EXISTA'S STOCK

ISIN code	IS0000013175
OMX Nordic Exchange in Iceland	EXISTA
Reuters	EXISTA.IC
Bloomberg	EXISTA IR

Stock exchange listing

Exista has been listed on the Main List of the OMX Nordic Exchange in Iceland since September 2006. Exista is included in the selective index OMXI 15 and the OMX Large Cap index.

The stock exchange symbol for Exista is EXISTA, and one round lot amounts to 2,500 shares. A round lot is the minimum number of shares that can generate a latest-paid price in conjunction with trading on the stock exchange.

Increase and distribution of shares

In February 2007 Exista announced that the group had acquired a 15.5% stake in Sampo Oyj, thereby becoming its largest shareholder. A part of the stake was paid with own shares and new Exista shares. In connection with the purchase, the Board of Directors of Exista exercised its authority to issue 522,346,339 new shares, raising the share capital from 10,838,746,119 shares to 11,361,092,458 shares in April.

SHARE PRICE DEVELOPMENT IN 2007

CLOSING PRICE ON THE OMX NORDIC EXCHANGE IN ICELAND

SHAREHOLDER STATISTICS

AT 31 DECEMBER 2007

Size of holding	Number of shares	Percentage of total share capital	Number of shareholders	Percentage of shareholders
1 – 100,000	131,004,354	1.15%	28,864	97.30%
100,001 – 1,000,000	174,534,447	1.54%	632	2.13%
1,000,001 – 10,000,000	300,410,786	2.64%	116	0.39%
10,000,001 – 100,000,000	792,405,936	6.98%	35	0.12%
100,000,001 – 1,000,000,000	3,810,946,299	33.54%	14	0.05%
1,000,000,001 – or more	6,151,790,636	54.15%	2	0.01%
Total	**11,361,092,458**	**100.00%**	**29,663**	**100.00%**

2007 SHARE STATISTICS ON THE OMX NORDIC EXCHANGE IN ICELAND

	Closing price	High	Low	Average trading volume per day
Jan	25.40	25.40	22.50	5,587,196
Feb	28.70	29.60	25.40	12,076,313
Mar	27.80	29.20	27.60	11,579,986
Apr	31.25	31.30	28.10	12,662,287
May	33.65	33.90	31.10	6,401,701
Jun	34.40	34.40	33.25	10,460,058
Jul	38.25	40.25	34.35	11,705,537
Aug	33.80	37.30	29.20	9,285,099
Sep	32.40	33.95	28.70	6,979,850
Oct	32.60	35.60	32.10	7,937,045
Nov	25.85	32.00	23.95	8,809,308
Dec	19.75	25.50	17.85	6,754,935

Share prices are in Icelandic krónas.
Average trading volume is in euros.

Authorisations granted to the Board

The Annual General Meeting held on 14 March 2007 authorised Exista's Board of Directors to increase share capital by up to 3,600,000,000 new shares. The Board of Directors exercised its authority on 10 April 2007 and issued 522,346,339 new shares. Shareholders have waived their pre-emptive rights to the new shares. The authorisation is effective until 14 March 2012, to the extent that it has not been exercised before that date.

The 2007 AGM also authorised the Board to buy the Company's own shares, up to a maximum of 10% of total issued share capital at any given time. The purchase price of these shares may be 20% above the average sale price of Exista shares on the stock exchange in the two weeks immediately preceding the purchase. No lower limit is set on this authorisation, either regarding the purchase price or the size of the share purchased each time. The authorisation is valid for 18 months. By Icelandic law, the Company's own shares do not carry voting rights.

Furthermore, the 2007 AGM agreed to authorise the Board to issue shares in the Company in euros instead of Icelandic krónas, if the Board considered the option feasible.

Market making

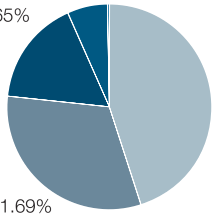
According to two separate agreements, Kaupthing Bank and Straumur-Burdarás Investment Bank must each submit, through their own accounts, daily bids and offers to the OMX Nordic Exchange in Iceland for a minimum of 1.0 million shares on each side at a price determined by the market maker on any given occasion. The maximum spread between bids and offers may not exceed 1%, and the difference from the last price paid may not exceed 3%. The market makers, Kaupthing Bank and Straumur-Burdarás Investment Bank, are obliged to provide liquidity for up to ISK 300 million and ISK 200 million, respectively, per day.

Dividends

The Board of Directors intends to propose to the Annual General Meeting on 28 February 2008 that no dividends be paid for the year 2007.

SHARE CAPITAL DEVELOPMENT

	Transaction	Description	Change in number of shares	Number of shares outstanding
January 2003		Opening balance		1,599,000,000
2003	Share increase	Merger, Bakkabraedur s.a.r.l. and Scandinavian Holding S.A. consolidated with Exista	4,440,500,555	6,039,500,555
2005	Share increase	Rights issue	2,649,286,360	8,688,786,915
2006	Share increase	Acquisition of VÍS Holding and merger of VÍS Holding, Exista eignarhaldsfélag and Exista	2,149,959,204	10,838,746,119
2007	Share increase	Purchase of shares in Sampo Group	522,346,339	11,361,092,458



Shareholders

The total number of Exista shareholders was 29,663 at year-end 2007.

Exista's largest shareholder is Bakkabraedur Holding B.V., a holding company owned by Lýdur Gudmundsson and Ágúst Gudmundsson, who founded Bakkavör Group over 20 years ago and have managed the company jointly since that time.

Various Icelandic savings banks hold approximately 16% in Exista. Exista was founded in 2001 by a group of savings banks, with the objective of holding shares in Kaupthing Bank. A holding company owned by several savings banks, Kista-fjárfestingarfélag, is the second largest shareholder.

Various pension funds hold about 7% of Exista's total share capital.

SHAREHOLDERS

	Shares	Ownership
Bakkabraedur Holding B.V. (holding company)	5,135,943,722	45.21%
Kista-fjárfestingarfélag ehf. (holding company/savings banks)	1,015,846,914	8.94%
Castel (Luxembourg) S.A.R.L. (holding company)	579,101,094	5.10%
Eignarhaldsfélagid Samvinnutryggingar (investment company)	399,170,009	3.51%
Sparisjódur Reykjavíkur og nágrennis (savings bank)	367,402,900	3.23%
Icebank hf. (savings bank)	281,430,078	2.48%
AB 47 ehf. (holding company)	265,435,668	2.34%
Gift fjárfestingarfélag ehf. (investment company)	216,341,250	1.90%
Gildi-lífeyrissjódur (pension fund)	213,827,023	1.88%
Lífeyrissjódur verslunarmanna (pension fund)	201,016,977	1.77%
Lífeyrissjódir Bankastræti 7 (pension fund)	180,547,306	1.59%
Eignarhaldsfélagid Stofn ehf. (holding company)	173,156,147	1.52%
Eignarhaldsfélagid Andvaka gt. (holding company)	170,120,118	1.50%
Sparisjódurinn í Keflavík (savings bank)	105,668,881	0.93%
Kaupthing Ís-15 (mutual fund)	74,913,872	0.66%
Citibank	55,165,060	0.49%
Egla hf. (holding company)	51,893,194	0.46%
Raffeisen Zentralbank Österreich	50,992,808	0.45%
Byggingamidstödin ehf. (holding company)	45,872,000	0.40%
Sameinadi lífeyrissjódurinn (pension fund)	39,493,993	0.35%
Twenty largest shareholders	**9,623,339,014**	**84.70%**
Other shareholders	1,737,753,444	15.30%
Total share capital	**11,361,092,458**	**100.00%**

Investor relations

At Exista we strive to communicate high-quality information to all our shareholders, as well as to the markets where we operate.

We focus on investor relations by communicating with shareholders, analysts, creditors, the media, and the investor community in general. On our Company website (www.exista.com) is a special section dedicated to investor relations. The website provides access to a share monitor for Exista, a shareholder list that is updated daily, financial information, Company news, and a variety of other information for shareholders and market participants.

Investor relations policy

Exista emphasises regular disclosure of accurate and consistent information about the Group's operations and financial position. We share this information with investors, analysts, market participants and other interested parties by the following means:

Internet

- Information regarding Exista's mission and strategy, operations, and business environment can be found on the Company website. Also available are financial reports and other information pertinent to the operations of the Group.
- Exista's news page contains Company-related announcements and press releases that are published through the OMX Nordic Exchange. The news page also contains other news items that make the Company more transparent to investors, analysts, and other interested parties.
- Annual and interim accounts and reports, as well as presentations and webcasts from presentations, are available on Exista's website, as is all pertinent information related to Annual General Meetings and other shareholders' meetings.

Meetings with investors and analysts

- Interested investors and analysts have ready access to Exista. The Company holds meetings regularly, in large and small groups and with individuals, where the Exista model and the Group's operations and general circumstances are discussed; however, insider information is never disclosed.

Queries

- Exista responds to all day-to-day queries as soon as possible, in accordance with the provisions of Icelandic law and regulations and the rules of the OMX Nordic Exchange.

Silent period

- For three weeks before the planned publication of its quarterly financial reports, the Group does not comment on matters related to Exista's financial results or expectations.

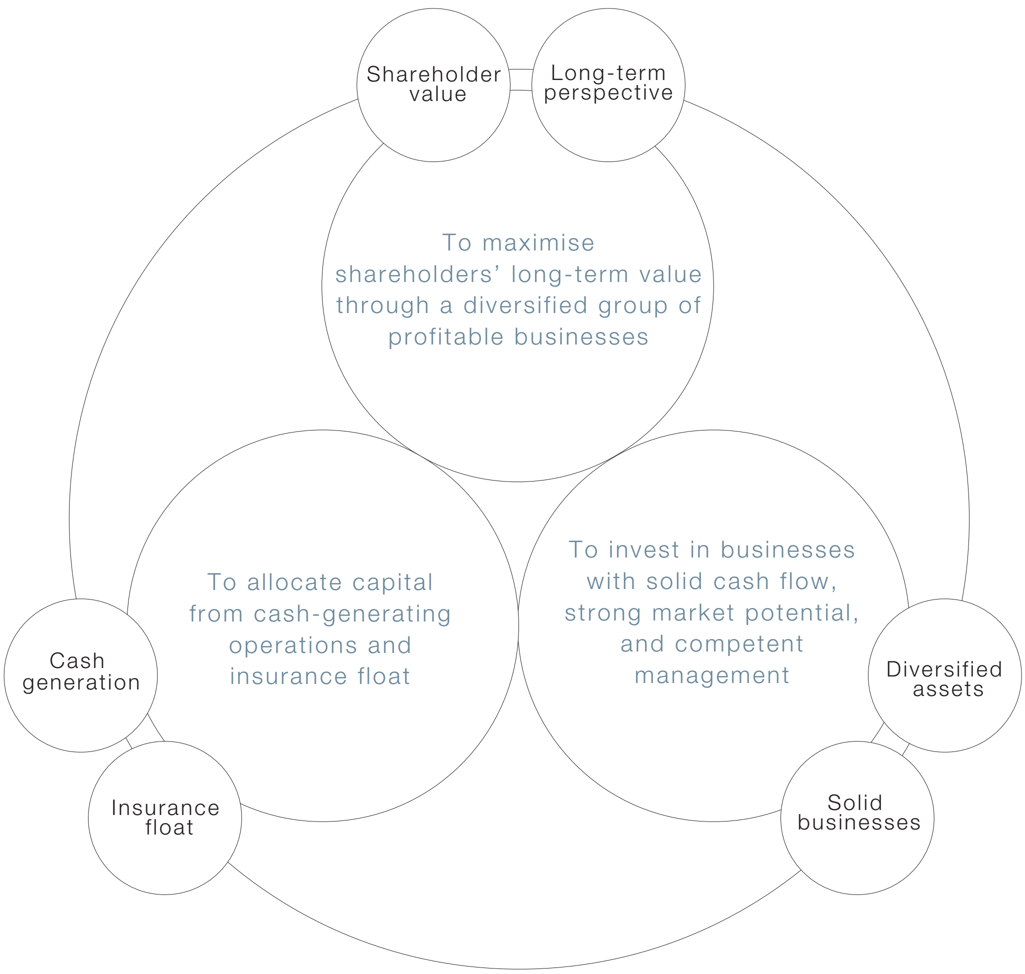
Exista complies with Icelandic law and regulations and the rules of the OMX Nordic Exchange in Iceland.

FINANCIAL CALENDAR 2008

Q1 interim statement	29 Apr 2008
Q2 interim statement	31 Jul 2008
Q3 interim statement	31 Oct 2008
Annual accounts 2008	30 Jan 2009

Exista will hold its Annual General Meeting on Thursday 28 February 2008 at 5:00pm at the Hilton Reykjavík Nordica, Sudurlandsbraut 2, Reykjavík, Iceland.

OUR STRATEGY



LEGAL INFORMATION

CORPORATE GOVERNANCE

Corporate governance at Exista is defined as the framework by which the Company is directed and controlled and the means by which relationships among Exista's management, Board of Directors, shareholders, and other stakeholders are conducted.

At a Board meeting on 23 August 2006, Exista implemented a corporate governance programme that is outlined in the internal rules of the Company. The aims of the corporate governance programme at Exista are to ensure proper disclosure and transparency, define the responsibilities of the Board and the management, define the rights and obligations of shareholders and stakeholders, ensure equal treatment of shareholders, and avoid conflicts of interests between the parties. Once a year, Exista's Board of Directors reviews its corporate governance programme. The programme was last updated on 31 January 2008.

The Board is ultimately responsible for the Group's system of internal controls and for reviewing that system's effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and it can only provide reasonable assurance against material misstatement or loss.

In 2004 the Iceland Chamber of Commerce, the OMX Nordic Exchange in Iceland, and the Confederation of Icelandic Employers issued *Guidelines on Corporate Governance*. Exista complies with these guidelines and intends to follow them with respect to its future structure and management.

In addition, Exista has carried out a comparison of the corporate governance regime in Iceland and the UK, as a part of a regular review of its corporate governance programme. It was concluded that the general principles applied are similar in nature, although the Icelandic regime is simpler and less detailed. Both regimes encourage transparency, accountability and promotion of a culture of managing a company for the benefit of all shareholders over the longer term.

Statutory bodies

The ultimate authority in the affairs of Exista, within the limits established by statutory provisions and the Company's Articles of Association, is in the hands of lawfully convened shareholders' meetings. Shareholders' meetings may be attended by shareholders and their representatives and advisors. Shareholders' meetings are open to representatives of the press and the OMX Nordic Exchange in Iceland.

Exista's Annual General Meeting must be held each year before the end of May.

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 prescribed by law.

Board of Directors

The Board of Directors manages Exista's general affairs and endeavours to keep its organisation and operations consistent with its mission and strategy. The Board of Directors directs Company affairs; it works to ensure that the Company's organisation and activities are in good order at all times and that accounting and handling of Company funds are sufficiently supervised.

The Board of the Company shall be composed of up to seven members who are to be elected at the Annual General Meeting for a term of one year. The eligibility of members of the Board is subject to statutory law.

The Board of Directors appoints the CEOs of Exista, and the Company's Remuneration Committee defines their terms of employment.

Exista plans to assess the activity, work practises, and procedures of the Board on an annual basis in view of the Company's progress, and it will engage the assistance of outside parties for this assessment when appropriate. The administrative rules adopted

EXISTA COMPLIES WITH ICELANDIC CORPORATE GOVERNANCE PRINCIPLES AND HAS ADOPTED FURTHER PRINCIPLES FROM THE UK REGIME.

by the Board of Directors on 23 August 2006 state that Board members should familiarise themselves with the provisions of law, the Company's Articles of Association, securities regulations, any rules that the Company may adopt and that relate to the handling of inside information and insider trading, and other relevant rules. The majority of Exista's Board members are independent of the Company, and three members are independent of major shareholders.

A major shareholder is any party controlling at least 10% of the Company's total share capital, either solely or acting in concert with related parties.

The independence of a Board member is evaluated as specified in Article 2.6 of the *Guidelines on Corporate Governance*, which are published by the Iceland Chamber of Commerce, the OMX Nordic Exchange in Iceland, and the Confederation of Icelandic Employers.

Exista complies with the Icelandic corporate governance principles on directorship. In addition, Exista's programme goes further and has adopted the following principles from the UK regime:

- All directors should be submitted for re-election at regular intervals of no more than three years. In Exista's programme, the Board is elected at the Annual General Meeting for a term of one year.
- Directors should receive induction on joining the Board and should update and refresh their skills and knowledge on a regular basis. Exista complies with this principle, even though it does not apply in Iceland.

The UK principles regarding directors go further and require that:

- A nomination committee be formed to lead the process of Board recommendations to the Board. It has not been the practice in Iceland to form such a nomination committee where a shareholder who has the skills and submits a lawful written notification for election to the Board of Directors can be elected.
- The roles of Chairman and Chief Executive may not be exercised by the same person. A Chief Executive should not go on to be a Chairman of the same company. The Icelandic Act respecting Public Limited Companies, no. 2/1995, allows managers to become Board members; however, a manager may not become Chairman of the company.

EXISTA BOARD MEETINGS 2007

	Attendance
8 February	5/6
14 March	5/6
26 April	6/6
5 June	6/6
26 July	5/6
25 September	5/6
25 October	5/6
21 November	5/6

BOARD COMMITTEES

The Board of Exista operates an Audit Committee and a Remuneration Committee. Each committee consists of the directors on the Board of Exista who are competent to deal with Exista's financial issues or remuneration, as the case may be.

The Audit Committee

The role of the Audit Committee is to ensure the integrity of the financial information reported to shareholders, control the Company's internal auditing and accounting systems, and evaluate the work of Exista's financial management and elected auditor.

The role also includes the monitoring the Company's financial position, evaluating its internal surveillance and risk management, evaluating management reporting on financial issues, and assessing whether all statutes and regulations are complied with.

The Audit Committee must consist of at least three members, the majority of whom should be independent of the company. Members must have the relevant skills and experience to discharge the duties of the Committee. Members of the Audit Committee are Chairman Gudmundur Hauksson, Bogi Pálsson, and Sigurjón Rúnar Rafnsson.

The responsibilities of the Audit Committee are set forth in the Audit Committee charter, which was approved by the Board of Exista on 25 September 2007.

Exista complies with the Icelandic corporate governance principles on the operation of an Audit Committee. In addition, Exista's programme goes further and has adopted the following principles from the UK regime:

- At least annually, the Board should conduct a review of the effectiveness of the Group's internal controls, including financial, operational and compliance controls and risk management systems. All the risk that the Group and its businesses face should be identified and assessed, and appropriate steps should be taken to manage it.

Audit Committee Report

Exista's Audit Committee comprises three Board members, two of whom are independent directors. Gudmundur Hauksson chairs the Committee, and the other members are Bogi Pálsson and Sigurjón Rúnar Rafnsson. Members of the Audit Committee must have a thorough knowledge of accounting and preparation of financial statements. The Committee held seven meetings between March 2007 and February 2008.

The Committee drafted an Audit Committee charter, which was approved by the Board in September 2007. The charter defines the composition of the Committee, as well as its responsibilities and the limitations on its authority.

The responsibilities of the Audit Committee include the following:

- Nominating an external auditor for shareholders' approval.
- Overseeing the independence of the external auditor.
- Reviewing – together with the external auditor, the Group's internal auditor, and the Chief Financial Officer – the adequacy and effectiveness of the accounting and financial controls of the Group, and soliciting recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable.
- Considering the audit scope and procedures in consultation with the external auditor and the Group's management.
- Reviewing the financial statements each year, together with the Chairman of the Board, CEOs, CFO, and external auditors.
- Reviewing the Audit Committee charter once a year.

In 2007, the Audit Committee appointed an internal auditor for the Group, approved a surveillance scheme, and formulated a timetable scheme so as to enhance the efficiency of the Committee's operation.

THE BOARD OPERATES AN AUDIT COMMITTEE
AND A REMUNERATION COMMITTEE,
EACH CONSISTING OF THREE BOARD MEMBERS.

The Remuneration Committee

The Remuneration Committee's role is to ensure that Company executives' remuneration reflects their personal performance, the interests of Exista shareholders, and the long-term performance of the Group. The CEOs are responsible for the remuneration of other employees and for ensuring that such remuneration 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 highly talented executives. For these purposes, the Committee consults external advisers concerning levels of remuneration in comparable companies, where appropriate. The remuneration package for executive directors consists of a basic salary, an annual bonus, pension arrangements, and other taxable benefits. Furthermore, the Remuneration Committee's role includes negotiating with executives concerning salaries and other terms of employment, negotiating with other employees who also sit on the Board concerning their salaries and other terms of employment, and drafting the Company's remuneration policy, including the performance-linking of salaries and stock options.

The Remuneration Committee also determines Exista's policy regarding employee stock options. Currently there is no stock option plan in place for Exista employees, although the remuneration policy to be presented to the Annual General Meeting anticipates that such a plan will be implemented.

The Remuneration Committee consists of three members, the majority of whom must be independent of the company. Members of the Remuneration Committee are Chairman Ágúst Gudmundsson, Bogi Pálsson, and Sigurjón Rúnar Rafnsson.

Exista complies with the Icelandic governance principles on remuneration. The regimes in Iceland and the UK are the same in principle.

Remuneration Committee Report

The Remuneration Committee's role is to ensure that executives' remuneration reflects their personal performance, the long-term performance of the Group, and the interests of Exista shareholders. The Committee consists of three Board members, two of whom are independent directors. Ágúst Gudmundsson chairs the Remuneration Committee; other members are Bogi Pálsson and Sigurjón Rúnar Rafnsson, who replaced Gudmundur Hauksson upon his resignation from the Committee in December 2007. The Committee held four meetings during the period from March 2007 to February 2008.

The Committee abides by Exista's remuneration policy, which was approved by the Annual General Meeting of 14 February 2007. Each year the Remuneration Committee submits a proposal to the Annual General Meeting concerning the remuneration to be paid to Board members for the upcoming operating year. In preparing its proposal, the Committee is required to take into account the time Board members spend on their duties, the responsibility involved, and the Group's operations in general. The Board of Directors' remuneration for the year 2007 is further detailed in page 22.

The Committee has finalised the Chief Executive Officers' terms of employment, which are, to the best of the Committee's knowledge, competitive by international standards. The remuneration paid to the CEOs for the year 2007 is further detailed on page 23.

The Committee prepared amendments to the remuneration policy, which the Board of Directors plans to present to the 2008 Annual General Meeting for approval.

SENIOR MANAGEMENT

BOARD OF DIRECTORS

Lýdur Gudmundsson (b. 1967)
Executive Chairman of Exista
Board member since 2003

Lýdur Gudmundsson founded Bakkavör Group in 1986. Since that time he and his brother Ágúst have managed the company's operations and growth. Lýdur is also Chairman of the Board of Bakkavör Group, Chairman of the Board of Skipti, and a Board member of the Iceland Chamber of Commerce.

Lýdur has over 20 years of experience and an outstanding track record in managing rapidly growing companies. Together with his brother, he has built Bakkavör Group from a small raw materials supplier with three employees to an international powerhouse in fresh prepared foods, with over 20,000 employees in nine countries. In recent years, Lýdur has devoted a large part of his time to building up Exista from a holding company of shares in Kaupthing Bank and Bakkavör to a financial services group with significant international presence.

Holdings of financially related parties: 5,135,943,926 shares
Bakkabraedur Holding, which controls 5,135,943,722 shares in Exista, is owned by Lýdur Gudmundsson and Ágúst Gudmundsson.
Remuneration for the year 2007: 1.58 million euros

Ágúst Gudmundsson (b. 1964)
CEO of Bakkavör Group
Board member since 2003

Ever since founding Bakkavör with his brother, Lýdur Gudmundsson, two decades ago, Ágúst Gudmundsson has devoted himself to the development of the company. Bakkavör Group is now the UK's leading provider of fresh prepared foods and produce. Ágúst is also a member of the Board of Directors of Bakkavör Group.

With a business background spanning more than 20 years, Ágúst has founded and managed exceptionally fast-growing businesses in a number of countries. Under his leadership, Bakkavör Group has grown over the past 20 years from a small start-up company in Iceland to an international food producer with turnover of GBP 1.5 billion.

Holdings of financially related parties: 5,135,943,722 shares
Bakkabraedur Holding, which controls 5,135,943,722 shares in Exista, is owned by Ágúst Gudmundsson and Lýdur Gudmundsson.
Remuneration for the year 2007: 31 thousand euros

Gudmundur Hauksson (b. 1949)
CEO of SPRON (Reykjavík Savings Bank)
Board member since 2001

Gudmundur Hauksson has been an executive within the financial sector for many years, having served as CEO of Hafnarfjördur Savings Bank (1986-1987), CEO of the Fisheries Bank of Iceland (1987-1989), and Executive Director of Íslandsbanki (1989-1991). From 1991-1996 he was CEO of Kaupthing Ltd. (now Kaupthing Bank), and since 1996 he has been CEO of SPRON (Reykjavík Savings Bank). Gudmundur is also a Board member and Chairman of the Board of several companies, including Kista-fjárfestingafélag ehf. and Frjálsi Investment Bank.

Gudmundur has over 20 years' experience as an executive in the financial markets. He was CEO of Kaupthing when the Icelandic securities market began taking off, and since he took over at the helm of SPRON, the bank has increased in size many times over. Gudmundur holds a degree in Business Administration from the University of Iceland.

Holdings in Exista: 3,504,198 shares
Holdings of financially related parties: 1,383,250,012 shares in Exista
Gudmundur Hauksson is financially connected to Kista-fjárfestingarfélag ehf., which controls 1,015,846,914 shares in Exista. He is also financially connected to Reykjavík Savings Bank (SPRON), which controls 367,402,900 shares in Exista.
Remuneration for the year 2007: 31 thousand euros

Bogi Pálsson (b. 1962)
CEO of Stofn and BOP
Board member since 2006

Bogi Pálsson has been an innovator and entrepreneur for 20 years. He is a former CEO of P. Samúelsson hf., which handles motor vehicle imports, sales, and service for Toyota and Lexus. Bogi is also Chairman of the Board of Flaga Group and a member of the Court of Arbitration of the Iceland Chamber of Commerce.

Bogi has a been a leading figure in Icelandic business life for two decades, first as CEO of Iceland's highly successful Toyota dealership, and later as an investor and entrepreneur. Bogi has a degree in Business Administration from the University of Iceland.

Holdings in Exista: 141,091 shares
Holdings of financially related parties: 173,156,147 shares in Exista
Remuneration for the year 2007: 31 thousand euros

Sigurjón Rúnar Rafnsson (b. 1965)
Deputy CEO and CFO of Kaupfélag Skagfirdinga Co-operative Society
Board member since 2006

Sigurjón Rúnar Rafnsson has been Deputy CEO and CFO of Kaupfélag Skagfirdinga Co-operative Society for over 10 years. Kaupfélag Skagfirdinga is among the largest companies in Northern Iceland, with a broad range of activities and business interests. Sigurjón is also a member of the Board of Directors of Sparisjódur Skagfirdinga (Skagafjördur Savings Bank), Fódurblandan hf., and FISK Seafood hf.

Sigurjón has enjoyed a long and successful career as a business operator and director of diverse companies and investments. He holds a degree in Business Administration from the University of Iceland.

Holdings of financially related parties: 11,146 shares in Exista
Remuneration for the year 2007: 31 thousand euros

Robert Tchenguiz (b. 1960)
Chairman of R20 Limited
Board member since 2007

In 2002, Robert Tchenguiz established the investment firm R20 Limited, whose purpose was to advise the Tchenguiz Family Trust on its investments. The firm specialises in a range of alternative investment strategies, including private equity, public equity & structured finance, and real estate.

Over 25 years ago, Robert established and built up Rotch Property Group, one of the largest investors in the UK real estate market. In recent years he has been among the most successful entrepreneurs and investors in the United Kingdom. He has a BSc in Business Administration from Pepperdine University in Los Angeles.

Holdings of financially related parties: 579,101,094 shares in Exista
Robert Tchenguiz donated his remuneration, 31 thousand euros, to charity.

CHIEF EXECUTIVE OFFICERS

Erlendur Hjaltason (b. 1957)
CEO

Erlendur Hjaltason served as a managing director at Eimskip, the largest transport group in Iceland, for 18 years. He became CEO of the company in 2002. Two years later he joined Exista as CEO. Erlendur holds a degree in Business Administration and an MBA from Copenhagen Business School.

Erlendur is Chairman of the Iceland Chamber of Commerce. He is also a Board member of Skipti (Iceland Telecom) and SPRON (Reykjavík Savings Bank).

Holdings in Exista: 13,109,699 shares
Holding of financially related parties: 11,651,163 shares in Exista
Remuneration for the year 2007: 350 thousand euros

Sigurdur Valtýsson (b. 1967)
CEO

Sigurdur Valtýsson served as a managing director at the insurance company Tryggingamidstödin hf. for eight years. He served as a managing director of Corporate Finance for MP Investment Bank from 2000 until he became CEO of the bank in 2003. In May 2006 Sigurdur became co-CEO of Exista. He received a degree in Economics from Columbia University in New York in 1991.

Holdings of financially related parties: 24,716,713 shares
Remuneration for the year 2007: 420 thousand euros

WORKING PROCEDURES FOR THE BOARD OF DIRECTORS

Board of Directors

The Board of Directors of Exista comprises up to seven members who are elected at the Annual General Meeting for a term of one year.

The Board of Directors elects the Chairman of the Board from among its members and allocates other tasks as required.

Tasks of the Board of Directors

In addition to overseeing Company operations, the Board of Directors supervises Exista's activities in accordance with the Articles of Association and the regulatory instruments governing Company activities.

The Board of Directors is responsible for the following tasks, among others:

1. Appointing Chief Executive Officers (CEOs) and determining their salaries and terms and employment.
2. Appointing an Internal Auditor, who is responsible to the Board of Directors, and determining his salary and terms of employment.
3. Hiring a Compliance Officer or formally confirming the hiring of a Compliance Officer.
4. Confirming key aspects of the internal organisation of Exista.
5. Establishing an Audit Committee and nominating its members.
6. Establishing a Remuneration Committee and nominating its members.
7. Deciding which employees are authorised to obligate Exista, and setting rules pertaining thereto.
8. Making a proposal to the Annual General Meeting on how to dispose of profit according to the Annual Accounts.
9. Making decisions on any merger with another company in accordance with the provisions of the law.
10. Promoting the Company's success and supervising its management and overall operation.
11. Taking the initiative in formulating the Company's strategy, both for the short term and for the long term, together with the CEOs.
12. Safeguarding the interests of all the Company's shareholders, as Directors are not to act specifically in the interests of parties supporting their election to the Board.

Directors' remuneration

The Board is required to establish a formal and transparent procedure for developing policy on executive remuneration. No Company director may be involved in determining his or her own remuneration.

Audit Committee and Auditors

The Board is required to establish an Audit Committee.

The Audit Committee is required to consult with and advise the Board on the scope of internal audit.

Queries and representation of the Board of Directors

The Chairman of the Board is the public representative of the Board of Directors unless otherwise decided by the Board of Directors. Other Board members should not express themselves publicly on issues relating to Exista. The CEOs may also represent Exista in public, according to common practise and the nature of the matter in question.

Queries by the Board of Directors or individual Board members are generally raised at meetings of the Board of Directors and are addressed to the CEOs or others present at the meeting. Otherwise, queries should be sent in writing to the Chairman of the Board, who will forward them to the CEOs or the Internal Auditor. It is not permitted to request information or send queries directly to other employees of Exista between meetings of the Board of Directors.

The provisions of the paragraph above do not apply to the Chairman of the Board, however, if he is an Executive Chairman. The same applies to other Exista employees who are Board members of the Company.

INVESTMENT APPROACH

INFORMATION ON SHARE CAPITAL

Share capital in the Company

The Company's share capital has a nominal value of ISK 11,361,092,458 and is divided into as many shares, each with a nominal value of ISK 1.00. At shareholders' meetings, each share carries one vote. There is only one class of shares in the Company.

Shareholders' meetings may decide on an increase in the share capital of the Company, either through subscription to new shares or through the issue of bonus shares, based on the rules that apply to amendments to the Company's Articles of Association.

Amendments to the Articles of Association

The Company's Articles of Association may be amended at a lawfully convened shareholders' meeting. A decision to amend the Company's Articles of Association is only valid if approved with the support of 2/3 of the votes cast, provided that shareholders controlling at least 2/3 of the shares represented at the meeting participate in the polling.

Electronic registration and Company share register

The Company's shares are issued electronically at the Icelandic Securities Depository (ISD), in accordance with the Act on Electronic Registration of Title to Securities. Once a shareholder has paid his share in full to the Company, he is issued an electronic certificate in a securities depository and a registered title that confers upon him the full rights provided for in the Articles of Association of the Company. Transfer of shares becomes effective upon registration with the Icelandic Securities Depository.

For the Company, the share register is regarded as full proof of ownership rights to any shares in the Company. Any dividends that may be paid, as well as bonus shares, notices of meetings, and other notices, are sent to the party listed in the share register as the owner of the shares in question.

Dividends are paid to those who are registered as the owners of the Company's shares at the end of the day of the Annual General Meeting during which a dividend payment is decided. The Company assumes no responsibility for loss of payments or notices because of a party's neglecting to notify the Company of changes of ownership or address.

Each shareholder must inform the Board of Directors of his address. If a shareholder does not do so, all announcements to him or her will be considered lawful if they are directed to the address in the share register of the Company.

The Company is not authorised to grant credit against share certificates in the Company unless permitted by law. The Company may purchase its own shares to the extent permitted by statutory law. It is not permitted to exercise voting rights for the Company's own shares. The Company may only acquire shares pursuant to an authorisation granted to the Board of Directors by a shareholders' meeting. Such an authorisation may remain valid for up to 18 months at a time.

No special rights are attached to any share in the Company. Shareholders are not obliged to redeem their shares unless required by law.

Shareholders' meetings

The ultimate authority in the affairs of the Company, within the limits established by the Company's Articles of Association and by statutory law, is in the hands of lawfully convened shareholders' meetings.

ANNUAL INFORMATION

Below is a list of all relevant information published or made available to the public from January 2007 – January 2008. The list is presented pursuant to Directive 2003/71/EC of the European Parliament and of the Council, of 4 November 2003, and to Icelandic regulatory instruments.

Required Legal Notices and Publications	Date		Source of information
Company announcement			Website:
Exista – Liquidity and funding update	10 Jan	2008	exista.com, omxgroup.com
Exista – Symbol of bonds issued by Exista hf. – change	29 Nov	2007	exista.com, omxgroup.com
Exista – Changes in symbols and long names in bonds series LYS 05 1, LYS 05 2, LYS 06 1	28 Nov	2007	exista.com, omxgroup.com
Exista – Exista's participation in Kaupthing Bank rights issue	26 Nov	2007	exista.com, omxgroup.com
Exista – Exista supports Storebrand's acquisition of SPP	19 Nov	2007	exista.com, omxgroup.com
Exista – Exista signs EUR 500 million unsecured syndicated loan	31 Aug	2007	exista.com, omxgroup.com
Exista – Exista with 20% shareholding in Sampo	10 Aug	2007	exista.com, omxgroup.com
Exista – Exista controls 5.56% in Storebrand	2 Aug	2007	exista.com, omxgroup.com
Exista – Exista with 19.93% shareholding in Sampo	25 Jul	2007	exista.com, omxgroup.com
Exista – Financial Group Exista and Chris Ronnie acquire a 29% stake in JJB Sports plc.	11 Jun	2007	exista.com, omxgroup.com
Exista – Exista has sold its share in IGI Group Ltd.	26 Apr	2007	exista.com, omxgroup.com
Exista – Shareholder list: 20 largest shareholders	17 Apr	2007	exista.com, omxgroup.com
Exista – Authorisation granted for ownership in Sampo; share capital increased	10 Apr	2007	exista.com, omxgroup.com
Exista – Exista's Board commits to increase share capital	8 Feb	2007	exista.com, omxgroup.com
Exista – Exista acquires 15.48% shareholding in Finnish Group Sampo	8 Feb	2007	exista.com, omxgroup.com
Financial reporting			
Exista – Presentation of annual results 2007 and AGM 2008	15 Jan	2008	exista.com, omxgroup.com
Exista – Presentation material for Q3 2007	26 Oct	2007	exista.com, omxgroup.com
Exista – Exista's operating results for the first nine months of 2007	26 Oct	2007	exista.com, omxgroup.com
Exista – Presentation of Q3 results 2007	15 Oct	2007	exista.com, omxgroup.com
Exista – Presentation of Q2 results 2007	30 Jul	2007	exista.com, omxgroup.com
Exista – Half-year financial report 2007	26 Jul	2007	exista.com, omxgroup.com
Exista – Presentation of Q2 results 2007	17 Jul	2007	exista.com, omxgroup.com
Exista – Presentation material of Q1 results 2007	27 Apr	2007	exista.com, omxgroup.com
Exista – Exista Q1 results 2007	26 Apr	2007	exista.com, omxgroup.com
Exista – Presentation of Q1 results 2007	23 Apr	2007	exista.com, omxgroup.com
Exista – Financial calendar 2007	9 Feb	2007	exista.com, omxgroup.com
Exista – Presentation material of annual results 2006	9 Feb	2007	exista.com, omxgroup.com
Exista – Annual results 2006	8 Feb	2007	exista.com, omxgroup.com
Exista – Presentation of 2006 annual accounts	2 Feb	2007	exista.com, omxgroup.com
Disclosure of trading in the Company's shares by its directors			
Exista – Directors dealing	19 Nov	2007	exista.com, omxgroup.com
Exista – Directors dealing	21 Jun	2007	exista.com, omxgroup.com
Exista – Related party trading	21 Jun	2007	exista.com, omxgroup.com
Exista – Related party trading	26 Apr	2007	exista.com, omxgroup.com
Exista – Directors dealing	26 Apr	2007	exista.com, omxgroup.com
Exista – Related party trading	2 Apr	2007	exista.com, omxgroup.com
Exista – Related party trading	2 Apr	2007	exista.com, omxgroup.com
Exista – Related party trading	13 Apr	2007	exista.com, omxgroup.com
Exista – Related party trading	13 Apr	2007	exista.com, omxgroup.com
Exista – Related party trading	12 Apr	2007	exista.com, omxgroup.com
Exista – Related party trading	30 Mar	2007	exista.com, omxgroup.com
Exista – Related party trading	30 Mar	2007	exista.com, omxgroup.com
Exista – Directors dealing	30 Mar	2007	exista.com, omxgroup.com
Exista – Related party trading	9 Feb	2007	exista.com, omxgroup.com
Exista – Related party trading	9 Feb	2007	exista.com, omxgroup.com
Trading in own shares			
Exista – Changes in company's own shares	15 Jun	2007	exista.com, omxgroup.com
Exista – Notification of issuer holdings	11 Apr	2007	exista.com, omxgroup.com
Exista – Notification of issuer holdings	10 Apr	2007	exista.com, omxgroup.com
Major holdings			
Exista – Major holdings	18 Apr	2007	exista.com, omxgroup.com
Exista – Major holdings	30 Mar	2007	exista.com, omxgroup.com
Exista – Major holdings	30 Mar	2007	exista.com, omxgroup.com
Annual General Meeting			
Exista – Results of Exista's Annual General Meeting 14 March 2007	15 Mar	2007	exista.com, omxgroup.com
Exista – Annual Report	14 Mar	2007	exista.com, omxgroup.com
Exista – Candidatures for the Board of Directors	12 Mar	2007	exista.com, omxgroup.com
Exista – Agenda and proposals for Annual General Meeting 14 March 2007	27 Feb	2007	exista.com, omxgroup.com
Listing of securities - Prospectuses			
Exista – New Money Market Listing (code: EXIS 07 1008B, market: OMX ICE - Fixed Income)	8 Aug	2007	exista.com, omxgroup.com
Exista – New Bonds Listing (code: EXISTA 07 1, market: OMX ICE – Fixed Income)	16 Jul	2007	exista.com, omxgroup.com
Exista – New Bonds Listing (code: EXISTA 07 2, market: OMX ICE – Fixed Income)	29 Jun	2007	exista.com, omxgroup.com
Exista – New Bonds Listing (code: EXISTA 06 3, market: OMX ICE – Fixed Income)	29 Jun	2007	exista.com, omxgroup.com
Exista – New Money Market Listing (code: EXIS 08 0317, market: OMX ICE - Fixed Income)	29 Jun	2007	exista.com, omxgroup.com
Exista – New Money Market Listing (code: EXIS 07 1029, market: OMX ICE - Fixed Income)	29 Jun	2007	exista.com, omxgroup.com

CORPORATE RESPONSIBILITY

Exista is dedicated to upholding high standards of ethical corporate behaviour and is fully aware of its corporate and social responsibilities. Exista is committed to conducting its business in an honest manner and treats shareholders, employees, and other stakeholders with respect.

Exista's main focus is to create long-term value for its shareholders – a goal that can only be achieved by a sustainable business in a thriving community. Exista respects basic human rights and complies with the laws and regulations of the countries in which the Group operates. In addition, the Group supports various projects and initiatives that benefit society at large. By supporting charitable causes, educational programmes, cultural endeavours, and activities that benefit the environment, Exista aims to enrich society and strengthen ties with its local communities.

The four focal points of Exista's corporate responsibility are: our shareholders, our employees, our community, and the environment.

Our shareholders

Exista is a partnership of shareholders whose purpose is to maximise long-term shareholder value. The size of our shareholder group – thirty thousand – illustrates great confidence in the Group, and it is our aim to merit this confidence, retain it, and augment it. The Board of Directors endeavours to ensure that the Group's operations and activities are properly managed at all times, in order to fulfil its duty to shareholders. Part of the effort to protect shareholder investments is to ensure effective risk management and compliance across the Group, as well as maintaining reliable communications and prompt and accurate information disclosure to stakeholders.

All shareholders of Exista are treated equally, regardless of the size of their shareholding.

Our employees

Our employees – and their skill and expertise – are central to our growth and success. We strive to make Exista a desirable workplace so as to attract, recruit, and retain employees of outstanding calibre. Safeguarding our employees' well-being, respecting each individual, and providing equal opportunities are of the utmost importance to us. By creating a competitive and inspiring work environment and providing excellent working conditions, we enable our employees to realise their full potential and maximise their contribution to the business. By the same token, we expect our employees to uphold Exista's standards in their business conduct towards their colleagues and their external business partners.

Our community

A thriving community is fundamental to a thriving business, and vice versa. The jobs that we provide and the taxes we pay contribute to the society in which we operate. However, we want to invest directly in the community in a way that fosters human development and enriches life. To that end, Exista makes charitable contributions and sponsors activities of various kinds.

Exista scrutinises the way in which potential investments conduct their business. Such scrutiny is a vital part of our risk management and due diligence process, as evidence of unethical business behaviour increases risk and goes against our beliefs. We aim to work with socially responsible companies, and we condemn exploitation of labour and unnecessary damage to the environment. By being a responsible corporate citizen and by exercising a choice in favour of socially responsible businesses and suppliers, we encourage others to behave in an ethical manner, to the benefit of society at large.

The environment

As a financial services group, Exista relies on human rather than natural resources and is therefore a relatively eco-friendly business with low direct environmental impact.

AT EXISTA WE ARE DEDICATED TO EXEMPLARY CORPORATE BEHAVIOUR, AND WE EXPECT OUR INVESTMENTS, SUBSIDIARIES AND COUNTERPARTIES TO BE EQUALLY PROACTIVE.

We must nonetheless monitor and minimise our indirect impact on the environment. At Exista we strive to keep all aspects of our operations as environment-friendly as possible, and we embrace the technology that helps us do so. Our headquarters in Iceland are heated with geothermal water, and our electricity is hydro-generated. We encourage the use of telephone and video conference systems in order to reduce the need for business travel, we emphasise electronic storage so as to minimise paper usage, and we recycle the majority of our office waste.

Exista supports various initiatives that aim to preserve and protect the environment or atone for damage already done.

Responsibility for CR

Exista reviews and develops its CR policy on an ongoing basis. The responsibility for improving CR activities and coordinating CR-related projects lies with Group Communications, which also reports on CR policy and activities to senior management, relevant agencies, and other interested parties.

Identification and management of risk, including risk arising from social, ethical and environmental issues, is integral to our business and is carried out by an effective risk management department run at the Group level.

Maintaining a high ethical and professional standard in every aspect of our operations requires the full involvement of all Exista employees. Everyone is expected to work according to the CR policy, which is easily accessible to all on the Company intranet, as well as on our corporate website. www.exista.com. Employees are encouraged to make suggestions for further improvement. At Exista we are dedicated to exemplary corporate behaviour, and we expect our investments, subsidiaries and counterparties to be equally proactive.

Exista's commitment to the above CR guidelines has been endorsed by the Board of Directors.

Selected projects in 2007

- Exista is committed to supporting educational, artistic, and athletic programmes. Exista was one of three sponsors of the Icelandic team at the 2007 Special Olympics in Shanghai.
- Exista places strong emphasis on health-related issues and supports organisations that help in both preventing and treating illness and injuries. Exista is one of the founders of the ISCI (Institution of Spinal Cord Injury, Iceland), an international organisation specialising in research on spinal cord injuries. In 2007 the Company also took part in various fund-raising endeavours, including an initiative concerning funding for a children's psychiatric institution.
- Exista purchases much of its office supplies from a sheltered workplace, which helps people with limited employment abilities to participate in the economy.
- In 2007, Exista supported various Icelandic forestation projects aimed at preserving existing woodlands and planting new forests around the country.

RISK MANAGEMENT

The Group is exposed to various risks inherent in conducting financial services operations. These risks include market, liquidity, credit, underwriting, and operational risk. The Board of Directors emphasises effective risk management, and the Group operates a centralised Group Risk Management (GRM) unit in order to enforce that policy. GRM identifies, monitors and manages risk proactively through a framework of Board-approved risk policies and procedures.

Group Risk Management

The Board of Directors determines overall risk tolerance levels. The CEOs oversee day-to-day risk levels on behalf of the Board. A Risk Committee composed of senior management and chaired by the Chief Risk Officer (CRO) is responsible for proposing limits and policies to the Board of Directors for approval, and for verifying that risk is managed within accepted tolerance levels. The Risk Committee also reports on significant matters and risk concentrations to the Board of Directors. GRM reports directly to the CEOs and has the main function of making the risk inherent in the Group's operations transparent to management and the Board of Directors. The CRO is responsible for GRM operations. Reporting to the CRO are the four individual risk functions: market risk, credit risk, operational risk and underwriting risk. Each function is responsible for monitoring the risk controls that apply to risk factors in the Company and its subsidiaries, and for making sure that they are in line with the risk management goals of the management and Board of Directors. Group Treasury is responsible for managing the liquidity and currency risk of the Group. The Group operates an Asset and Liability Committee (ALCO) that is chaired by the Chief Financial Officer and is responsible for overseeing the Group's asset and liability management. GRM ensures that Group Treasury operates within risk limits set by the Board. A Credit Committee is operated from within Lýsing and is chaired by its CEO. The Credit Committee is responsible for overseeing the credit risk inherent in Lýsing's lending activities. It also assesses individual loan applications and conducts hindsight reviews. GRM ensures that risk factors are identified and that effective procedures and guidelines are in place in order to limit risk and to quantify and control the Group's risk exposure.

GRM is also responsible for working with the individual subsidiaries in order to establish best practises in risk management and implement Group-wide reforms when new risk management practises develop. The Group's insurance and asset finance subsidiaries are regulated by the Financial Supervisory Authority in Iceland (FSA). FSA ensures that the activities of these subsidiaries are in accordance with regulatory provisions and their business practises are sound. The regulated subsidiaries report regularly to FSA, and GRM monitors compliance with regulations and reports directly to FSA on exceptional requests.

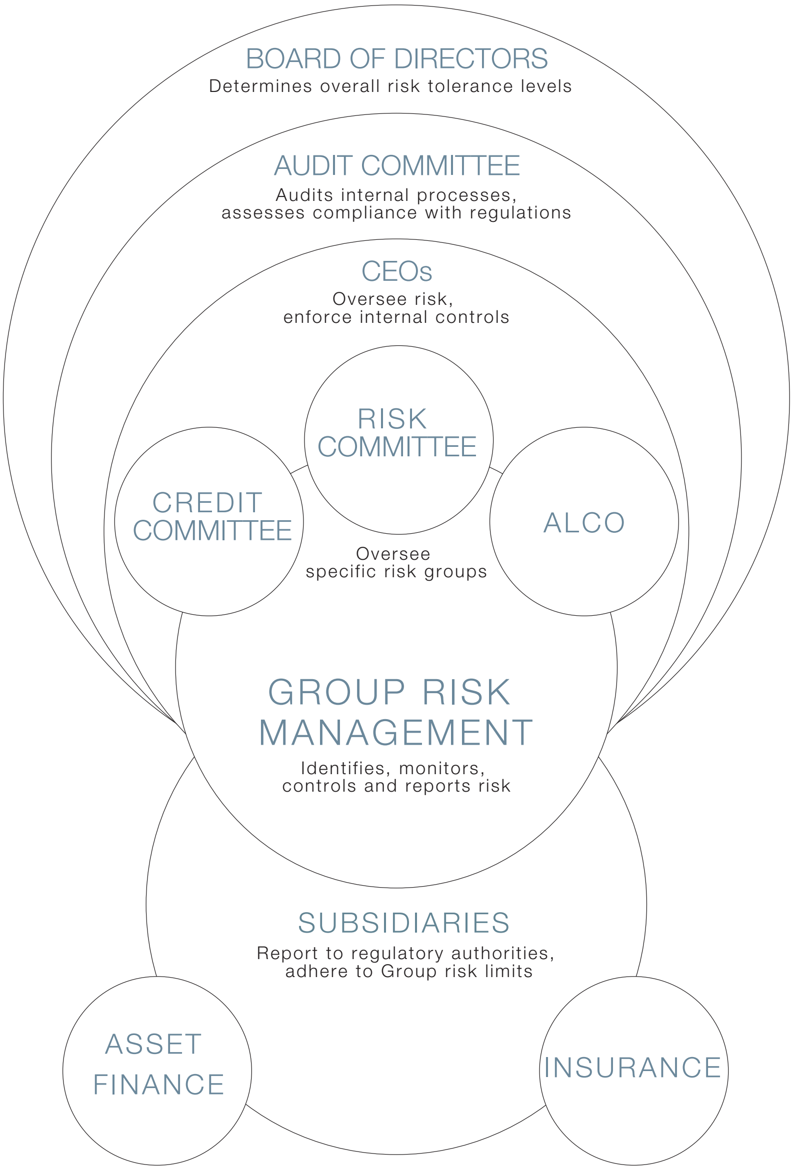
Market risk

Market risk is the current or prospective risk of loss to earnings and capital arising from unfavourable changes in market variables such as equity prices, interest rates, exchange rates, and other factors that may not be as directly observable, such as liquidity, volatility, and correlations. Market risk also includes the risk of unfavourable value changes in securities and other commitments in tradable form, which can result from general country and credit risk factors and events specific to individual issuers.

Investments in associates comprise 59% of total assets. Since 1 January 2007, these holdings have been accounted for using the equity method rather than on a fair value basis, which reduces the impact of market fluctuations on the Group's accounting profits. There is still an underlying market risk because of the possibility that a mismatch could develop between the accounts and the market value of the assets, and that such a mismatch would be realised if the assets were ever sold or marked down. The Group's listed holdings in financial assets measured at fair value and its financial assets held for trading are marked to market on a current basis and are therefore affected by fluctuations on the equity markets. Financial assets measured at fair value and financial assets held for trading represent 14% and 3%, respectively, of the Group's total assets at year-end 2007.

Financial assets held for trading represent the assets under management for the insurance subsidiaries and short-term trading assets. The Group's Research unit is responsible for asset manage-

RISK MANAGEMENT OVERVIEW



ment for the insurance subsidiaries. GRM monitors, manages, and reports on the risks in the Group's investments, as well as on assets under management. All positions are marked to market intraday in the Group's systems. Stress tests and statistical tests are used to measure and quantify market risk.

The insurance subsidiaries' portfolios are monitored by FSA and are structured so as to maintain sufficient capitalisation and financial strength at all times. The portfolios focus on long-term investments, stable returns, diversified portfolios, and minimisation of risk. FSA imposes limits on the maximum amount of each type of security held in the portfolio, and diversification limits are in place to ensure adequate diversification of assets. With the sole exception of Government bonds, no single security or counterparty may constitute more than 10% of the portfolio. The Group's GRM unit monitors the portfolios and makes sure that they adhere to these limits and to Group-wide risk limits that have been approved by the Board of Directors.

The GRM unit performs regular stress tests on the Group's market assets, wherein extreme fluctuations are tailored and chosen subjectively, based on historical experience and worst-case scenarios that give an indication of possible losses in a market crisis. The Group is sensitive primarily to equity market fluctuations in Northern Europe and in the financial sector. Structural changes made during the year reduce the Group's sensitivity to these fluctuations; in particular, the closing of the Group's proprietary trading unit has reduced the overall exposure to market risk.

Currency risk

Currency risk is the risk of incurring losses due to adverse changes in exchange rates. Currency risk exposure forms where there is a mismatch between the assets and liabilities of the Group in currencies other than its accounting currency.

As of 1 January 2007, the accounting currency of the Group was changed from the Icelandic króna to the euro. The Group undertakes certain transactions denominated in currencies other than its accounting currency, including the Norwegian krone, the US dollar, the Japanese yen, and the Icelandic króna. These transactions are related primarily to the Group's strategic holdings that are not accounted for in euros. The currency exposure derived from these undertakings is managed through asset and liability matching. Derivative financial instruments, primarily currency forwards, are also used to hedge risks associated with currency fluctuations relating to certain firm commitments and forecasted transactions. Group Treasury is responsible for managing the Group's currency risk. GRM monitors and reports daily on currency exposure and ensures that it remains within Board-approved limits. The total currency exposure must always be within 35% of Group's total equity as reported in the most recent financial statements. Further restrictions regarding exposure to individual currencies are also set in the currency risk policy. For investments in associates and unlisted assets, the accounting currencies of the underlying assets are used in the currency balance, while for listed equities, the currency of the primary listing is used.

The net carrying amounts of the Group's currency-denominated monetary assets and monetary liabilities as of the reporting date are shown in the following table:

CURRENCY EXPOSURE 31 DEC 2007

	EUR	NOK	USD	JPY	ISK	Other
Exposure	-627.5	301.8	119.0	106.0	98.4	3.8

Amounts in EUR millions

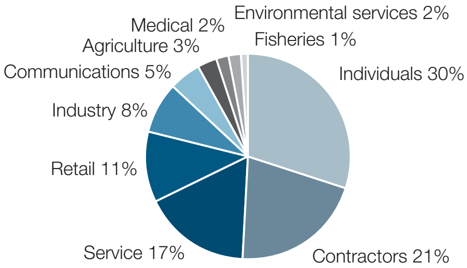
The following table details the Group's sensitivity to a 10% appreciation in the euro against the relevant currencies. The sensitivity analysis includes currencies other than the accounting currency, the euro, and adjusts their translation at the end of the period. In this table, a positive number indicates an increase in profit and

SENSITIVITY ANALYSIS 31 DEC 2007

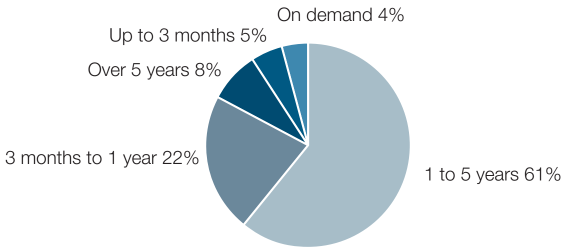
	NOK	USD	JPY	ISK
Effect on income	-30.2	0.1	-9.7	45.8
Effect on equity	0	-11.9	-0.9	-55.6
Net effect	-30.2	-11.8	-10.6	-9.8

Amounts in EUR millions

LOAN PORTFOLIO BY SECTOR
YEAR-END 2007



LOAN PORTFOLIO BY REMAINING DURATION
YEAR-END 2007



equity, where the euro appreciates 10% against the relevant currency. For a 10% depreciation of the euro against the relevant currency, there would be an equal and opposite impact on profit and equity.

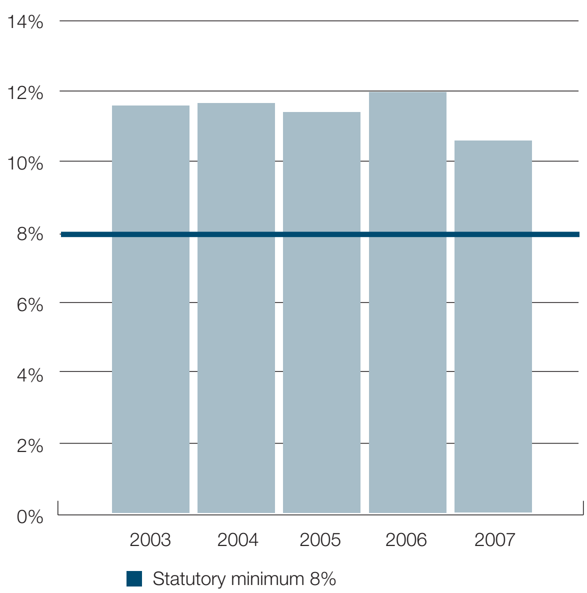
Credit risk

Credit risk is the prospective risk to earnings and capital arising from the failure of counterparties to meet all or part of their obligations towards the Group. Credit risk is an integral part of the Group's asset finance operations, which provide asset financing to commercial and private clients. This risk is compounded if the value of the underlying collateral is variable or if it only partly covers the obligations of the counterparty.

Most of the Group's credit risk exposure is concentrated in the asset finance subsidiary, Lýsing hf. Lýsing's portfolio is well diversified in loans and leasing contracts, and the company has procedures in place for the approval of loan applications. Employees are assigned credit approval authority up to a certain amount, depending on their qualifications, experience, and training. Lýsing's Credit Committee meets daily to review all commercial applications and all individual applications that exceed a certain amount. Approval from the Lýsing Board of Directors is required for applications that would result in an exposure exceeding the Credit Committee's approval limit allowance. The risk assessment procedures consider the creditworthiness of the counterparty and the risks related to the specific type of credit facility and exposure involved. Each counterparty must be able to demonstrate, with a high degree of certainty, that he will be able to repay the debt. Lýsing is also particularly careful in granting credit to businesses in troubled or cyclical industries.

Lýsing has a well diversified asset-backed loan portfolio that grew by 5.6% in 2007. Lýsing's policy is to fully hedge the interest rate and currency risks inherent in its credit exposure. It has procedures in place that ensure that the duration of its lending contracts match with the terms of its funding, as well as matching the fixed vs. floating interest rates. All of Lýsing's contracts contain provisions allowing Lýsing to change its interest rates on a monthly basis, which enables the company to react quickly to changes in its funding profile. Since Lýsing is defined according to Icelandic law as a financial institution, the company is regulated by FSA and reports quarterly to it on loans in arrears, exposure concentration, and equity limits. Lýsing's CAD ratio was 10.58% at the end of 2007. The statutory minimum CAD ratio imposed by FSA is 8% for financial institutions.

LÝSING - CAD RATIO AT YEAR-END



The Group's credit risk can be divided into three main categories: default risk, exposure risk, and collateral risk.

Default risk is the risk that counterparties will fail to meet contractual obligations. It consists of the total exposure to the counterparty, the probability that the client or counterparty will default on his contractual obligations, and the likely recovery ratio on the defaulted obligations. The client's credit history is always reviewed, and clients are rated using an internal model derived from previous experience. For commercial clients, risk is determined on a case-by-case basis and is discussed by the Credit

Committee. For individuals, their credit history and underlying collateral determine the risk.

Exposure risk is the risk that the Group may suffer a loss on any exposure. Exposure can exist with respect to certain clients, currencies, and industries. Limits are set on these exposures where appropriate in order to restrict credit risk concentrations, or in instances when management believes there is greater risk. Currency exposure is controlled by matching obligations and borrowings. Lýsing's policy with regard to currency risk is to fully hedge all currency risk on an intraday basis.

Collateral risk is the risk that assets used to secure repayment of debt obligations will drop in market value or cannot be collected because of borrower default. Nearly all credit contracts issued by Lýsing require collateral, and for most credit contracts, Lýsing is the registered owner of the collateralised asset, which improves the collection ratio. Collateral most often takes the form of real estate, machinery, and vehicles. The market value of the collateral can change for many reasons and may not be sufficient to fulfil the obligation in case of default. Machines are subject to inspection before being accepted as collateral. For new contracts, the term of the contract may not exceed the expected life span of the collateral, and the salvage value must always be adequate to cover all obligations. For used vehicles, an independent condition estimate is required.

The write-off of the loan portfolio at the end of 2007 was 0.69%, calculated as total write-offs at year-end against the total loan portfolio at the beginning of the year. The ratio of provisions to total loans at the end of the year was 2.15%. Provisions for losses are reviewed on a monthly basis by the debt collection department, legal department, and CEO of Lýsing. The table shows write-offs and provisions for losses as a percentage of total loans at the beginning of each year.

WRITE-OFFS AND PROVISIONS FOR LOSSES

	2003	2004	2005	2006	2007
Provisions % loans	2.01%	2.17%	0.84%	0.82%	2.15%
Write-offs % loans	0.47%	0.41%	0.47%	0.32%	0.69%

Funding and liquidity risk

Liquidity risk relates to an organisation's ability to raise sufficient funds to meet its short-term obligations. Treasury manages liquidity and funding continuously and reports to the Asset and Liability Committee on a regular basis. GRM is responsible for quantifying and controlling the Group's risk exposure and for identifying risk factors. Furthermore, GRM ensures that the Group's strict liquidity requirements are met and that appropriate action is taken when requirements are not met.

Treasury is responsible for liquidity management and continuously monitors the Group's liquid funds and maturing obligations, ensuring that all liabilities are met as they arise. The primary objective is to guarantee that all obligations maturing within 180 days can be met with committed liquidity sources. Furthermore, all debt maturing within 360 days should be covered with the addition of other liquidity sources. Committed liquidity includes cash and equivalents, committed credit lines, and repo-eligible securities. Excluded from these calculations are other liquid assets, estimated cash generation from insurance and asset finance activities, and proposed dividends from holdings. As of year-end 2007, the Group's committed liquidity covered 50 weeks of refinancing obligations. Further information on borrowings, funding, and liquidity can be found in the section on Funding & Liquidity on page 66.

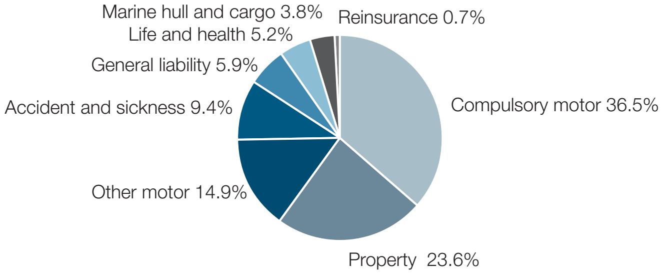
Underwriting risk

Underwriting risk is the risk that premiums collected from the insured will not be sufficient to meet the liabilities arising from underwriting insurance policies. By building up a portfolio of policies with similar risks, the insurer can use statistical methods to estimate the expected liabilities connected with the policy and determine a price for insurance coverage.

The Group is exposed to underwriting risk connected to two of its subsidiaries: VÍS, a non-life insurance company, and Líf ís, a life insurance company. The main elements of underwriting risk are loss-frequency risk, loss-size risk, reinsurers' risk, and technical provision risk.

INSURANCE SEGMENTS BY PREMIUMS WRITTEN

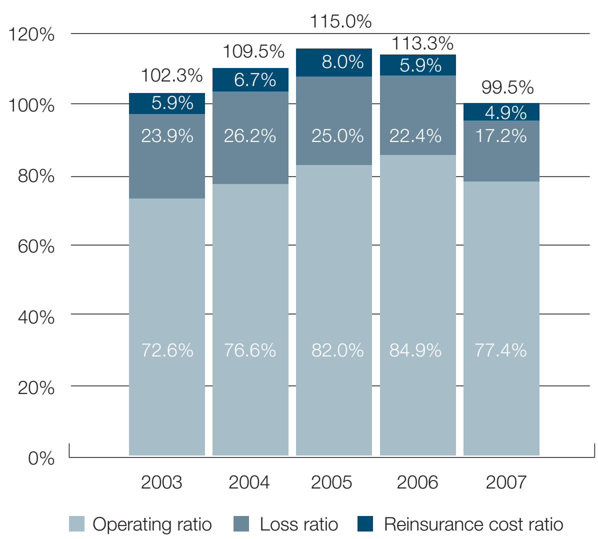
YEAR-END 2007



The combined ratio is the sum of the incurred losses, operating expenses, and net reinsurance cost as a proportion of earned premiums. When VÍS became part of the Group in 2006, measures were adopted to improve its underwriting results after years of high combined ratio. The combined ratio for 2007 was 99.5%. Due to a high technical interest rate (9.6%), the investment return from insurance activities is high and the operating ratio in good order (86.3%). The operating ratio is the same as the combined ratio but is expressed as a proportion of earned premiums and investment returns from insurance operations. An improved combined ratio puts the insurance companies in a better position to meet decreasing interest rates in the near future. The graph below depicts the combined ratio and other key ratios for the insurance subsidiaries over the last five years.

Loss frequency risk is the risk that losses – or a certain type of loss – will become more frequent than expected; that is, that the loss frequency will exceed the estimate on which insurance tariffs are based. GRM conducts close and constant examination of the loss frequency in the various types of insurance, especially in private insurance such as motor vehicle insurance, house owners'

COMBINED RATIO OF INSURANCE ACTIVITIES



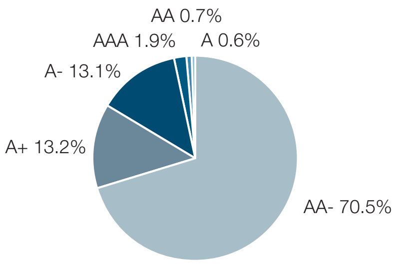
insurance, and homeowners' insurance, where there are many policies and relatively high loss frequency. By conducting such examination, GRM aims to discover any trend in loss frequency as soon as possible in order to take the necessary steps.

One of the most effective ways to deal with loss frequency risk is to diversify the insurance portfolio. Exista's insurance subsidiaries have a significant risk diversification between insurance branches.

Loss-size risk is the risk of misjudging the average amount of losses or the likelihood of a severe loss event. Most losses are small losses, or so-called frequency losses. The density of losses decreases as loss amounts increase up to medium-sized losses, severe losses, and catastrophic losses. To limit the impact of severe loss events and to protect the balance sheet against drastic fluctuations, GRM purchases reinsurance protection. Furthermore, GRM devises a reinsurance programme for each branch of the business and for the company as a whole. The amount of risk that the Group carries for its own account is determined with respect to the financial strength of the insurance companies and the nature of the risk. The reinsurance policy is discussed and approved by the Board of Directors of the insurance companies, and Exista's Board of Directors approves the overall reinsurance policy. The risk management team implements the approved reinsurance policy.

Reinsurers' risk is the risk that a reinsurer will not be able to pay his share of a loss event. In severe loss events, the settlement can take many years. In order to limit counterparty risk regarding the Group's reinsurers or the risk that they will not be solvent at the time of settlement, GRM has structured a reinsurance policy for insurance subsidiaries. The policy states that no loss shall affect solvency by more than 3% and that a catastrophic event or loss event involving more than one reinsurance programme shall not affect solvency by more than 6%. The policy stipulates a minimum rating that reinsurers participating in the reinsurance programmes must receive from an international rating agency. The policy limits the number of reinsurers in a programme, depending on the volume ceded and limits of cover. There are also limits on the maximum size of a loss ceded to a reinsurer, depending on rating

REINSURERS' RATING
2008 ESTIMATE



and contract length. The chart shows reinsurers' ratings as a percentage of estimated ceded premiums for 2008.

Technical provision risk is the risk that incurred losses or the underlying risks related to an insurance portfolio are underestimated. Technical provisions consist of unearned premiums and loss reserves. Unearned premiums are the estimated insurance liabilities of unexpired policies. Loss reserves are unsettled losses, both reported losses and those that are incurred but not reported to the insurer. The strength of technical provisions is examined using a set of statistical methods that make it possible to estimate outstanding losses and the risk margin.

Operational risk

Operational risk is the risk of loss or damage, direct or indirect, from insufficient or failed internal processes, people and systems, or from an external cause. The Group's policy is to identify and reduce possible operational risk factors in a cost-effective manner. The Group aims to increase overall risk awareness among employees on an ongoing basis and to encourage employees to be actively involved in finding ways to reduce operational risk still further. Each business area is responsible for defining and monitoring the operational risk inherent in its operations. GRM assists the business areas in identifying operational risk and developing measures to manage it. GRM also assists in mapping and documenting business processes, thereby isolating and reducing risk related to those processes. This strategy reduces the frequency of operational risk events such as fraud, and it minimises potential losses, as well as aiding the Group's staff in preparing for and managing future risk events.

IT risk is the risk of damage to the Group's value due to incomplete or inadequate processes and events related to information technology. The Group's IT strategy is to provide its employees with the highest-quality information available in the most secure manner possible; to maintain awareness between IT budget, quality, and project duration; and to manage and optimise business processes, both in internal activities and in interactions with external parties. GRM is in charge of identifying and responding to factors that may cause a failure in the confidentiality, integrity, or availability of data and systems. The Group has implemented an information security management system based on a model set forth in the ISO 27001 standard. The system has been reviewed by FSA and the Icelandic Data Protection Authority. GRM works actively towards minimising the IT risk inherent in the Group's operations. In line with the IT strategy, GRM works consistently towards enhancing data availability and data integrity; that is, ensuring that data are consistent and correct. GRM monitors matters relevant to IT systems, information security, and reliability. Regular backups of the Group's data are kept in a secure, remote location, which guarantees that there will be no significant data loss in case of unforeseen events. Backups are tested regularly for data integrity and restoration time.

Business continuity is the ability of an organisation to continue operation after a disruptive event. The Group and its significant subsidiaries have in place a business continuity plan whose purpose to ensure that key functions can be continued in case of possible disruption. The plan is tested on a regular basis and updated at least annually.

Reputational risk is the risk of potential damage to a firm due to deterioration of its reputation. This damage can result in lost future opportunity, foregone (future) revenues, and decreased shareholder value. The Group's policy is to actively reduce the risk of possible loss directly related to deterioration of its reputation and to be thoroughly prepared to deal with a potential crisis should it arise.

The Group's financial services subsidiaries Lýsing, VÍS and Lífís all operate under licences from FSA. FSA regulates these subsidiaries in accordance with regulatory provisions by carrying out regular reporting and on-site audits. On occasion FSA requests information outside the scope of the regular reporting. This exposes these subsidiaries to compliance risk and could result in their being fined for non-compliance. To reduce this potential risk factor, GRM monitors adherence to regulations and reporting to FSA. The regulatory environment is set by the Act on Insurance Activities

THE GROUP AIMS TO INCREASE OVERALL RISK AWARENESS AMONG EMPLOYEES

AND TO ENCOURAGE EMPLOYEES TO BE ACTIVELY INVOLVED IN FINDING WAYS TO REDUCE OPERATIONAL RISK STILL FURTHER.

(no. 60/1994), the Act on Insurance Contracts (no. 30/2004), the Act on Financial Undertakings (no. 161/2002), the Act on Official Supervision of Financial Operations (no. 87/1998), regulations based on these Acts, and guidelines published by FSA. As a part of the European Economic Area, Iceland has adopted the EU directives on insurance and financial activities. The Icelandic Financial Supervisory Authority is a member of the Committee of European Banking Supervisors (CEBS, www.c-ebs.org), the Committee of European Securities Regulators (CESR, www.cesr-eu.org), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS, www.ceiops.org), and the International Association of Insurance Supervisors (IAIS, www.iaisweb.org).

OUR FOCUS ON FOUNDATIONS IS REFLECTED IN OUR STRUCTURE, OUR PEOPLE, AND OUR ACTIVITIES.

Dear Shareholders,

Interplay between operating businesses and investments is a key theme in Exista's business model. Financial services are at the heart of our operations. Our financial services companies include subsidiaries, on the one hand, and associates, on the other.

Our insurance subsidiaries showed major operational improvements during 2007. Since acquiring this business in 2006, we have adopted measures aimed at improving the profitability of our insurance activities. These measures, which proved quite successful, have resulted in substantially reduced combined and operational ratios. Our asset finance business has shown continued stability, although return on equity declined somewhat between years due to a challenging external environment.

Our associates, Sampo Group and Kaupthing Bank, are among the leading financial institutions in the Nordic region. Our accounts reflect the real operating performance of those companies, as associates are accounted for by the equity method. Exista is the largest shareholder in both Sampo and Kaupthing.

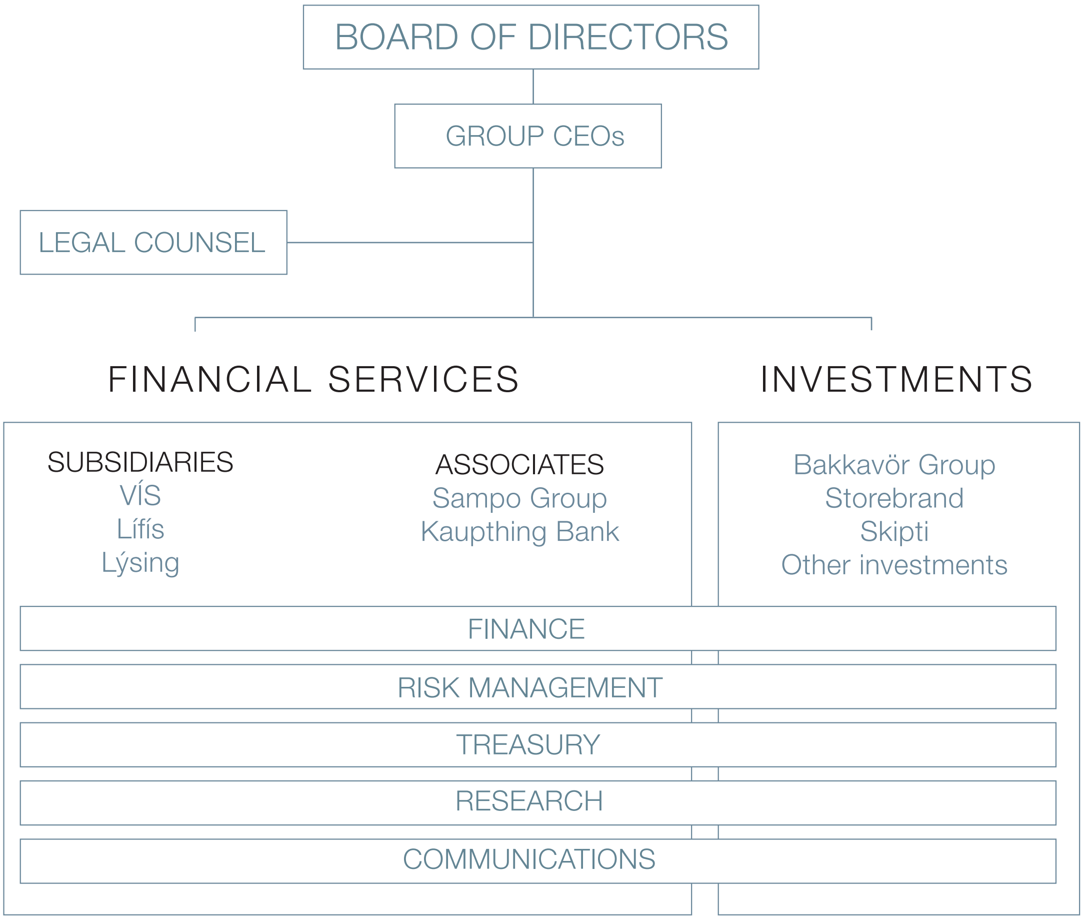
Investments, however, are recorded at the prevailing share price, or at fair value. Our largest holdings, such as Bakkavör Group, Storebrand, and Skipti, demonstrated strong operating performances in 2007. Our strategy is to invest in mature businesses with strong cash flow, competent management, and promising market potential. All the investments mentioned above meet these criteria perfectly.

The Group's activities are supported and monitored by ancillary functions. Group Risk Management identifies, monitors, and manages all risk factors. Group Finance conducts consolidated accounting, budget planning, and cost control. Treasury is responsible for funding and liquidity management for the Group as a whole. Research handles analysis of investment opportunities and markets, supporting Exista's growth and development. Group Communications takes care of stakeholder relations and information disclosure.

At Exista, our operating structure reflects our activities as a financial services group and a long-term investor in well-established businesses. In all our work, we concentrate on fundamentals and long-term value; therefore, our focus on foundations is reflected in our structure, our people, and our activities.

Erlendur Hjaltason *Sigurdur Valtýsson*

ORGANISATIONAL STRUCTURE



INSURANCE UNDERWRITING

Exista wholly owns and operates two independent insurance underwriters: VÍS is a leading property and casualty insurance company in Iceland, and Lífís is an Icelandic life insurance provider.

While the two insurance companies enjoy a solid market position, Exista has focused on improving the profitability of the underwriting operations. From mid-2006, when Exista acquired the insurance business, until year-end 2007, the combined ratio dropped from 113.3% to 99.5%. The operational ratio was 86.3% in 2007, compared with 95.9% the year before. VÍS and Lífís are regulated by the Icelandic Financial Supervisory Authority (FSA).

VÍS Insurance

VÍS (Vátryggingafélag Íslands hf.) is one of Iceland's leading general insurance companies. With roots dating back to 1917, the company specialises in non-life insurance operations, offering comprehensive insurance products for households, businesses, municipalities, and institutions. VÍS is a market leader in Iceland and has a strong brand name. In recent years, the company has begun to explore opportunities to insure risk in other market areas. This is a growing part of the portfolio, although it does not yet generate a substantial share of company's premium income. In co-operation with the Nordic insurance company If, which is part of the Sampo Group, VÍS has been able to extend its service offering internationally. VÍS employs 205 people and operates 43 branches around Iceland.

Market position and competition

The non-life insurance market in Iceland has grown conservatively in recent years, and competition for customers has been fierce. There are three major players in the market - VÍS, Sjóvá, and TM - along with a few smaller entities. In 2006 VÍS increased its market share by approximately 2% and became the largest insurance company in the Icelandic market, with a 34.4% market share in terms of premiums. VÍS was still strengthening its market position in 2007.

VÍS focuses more on profitability from insurance operations than on market share. The company has revised its premium basis and has been working on significant cost-cutting and reorganisation efforts aimed at establishing and maintaining underwriting profit. This has not compromised VÍS' market position, however, as there was 7.8% growth in the number of VÍS insurance policies during 2007.

VÍS has begun expanding its business internationally by offering insurance protection in the Nordic countries and elsewhere in Northern Europe.

International markets and operation

Through EEA passporting legislation, VÍS insures risks in a number of European countries, including the UK, Denmark, Sweden, Norway, France and Spain. In addition, VÍS has a license to write risks in Ireland, Finland, Portugal, Italy and the Baltics. The company also plans to open a branch in the Faroe Islands.

VÍS has a collaboration agreement with the Nordic insurance company If, concerning joint marketing through worldwide networks. If P&C Insurance is the leading property and casualty insurance company in the Nordic region, with approximately 3.3 million customers in the Nordic and Baltic countries, in addition to Nordic customers with international operations. If is a part of Sampo Group, which is further discussed on page 46 of this report.

Products and services

VÍS offers comprehensive insurance services in Iceland, including life insurance and health insurance, which are available through Lífís.

VÍS' homeowners' insurance products underwent substantial development during the year. F+ homeowners' insurance was further developed and improved, and a new product, F+4, now provides the most comprehensive homeowners' coverage on the Icelandic market.

During the year, VÍS and Valitor (formerly VISA Iceland) concluded an agreement whereby VÍS will provide all travel insurance for those VISA customers who hold cards from SPRON (Reykjavík Savings Bank), Kaupthing Bank, and all of the savings banks in regional Iceland. Following the conclusion of that agreement, VÍS also took over the payment card insurance provided to SPRON MasterCard holders.

Due to the sharp increase in recreational vehicle and trailer ownership in Iceland, VÍS introduced insurance coverage for trailers, campers, and recreational vehicles during the year. VÍS customers have been quick to welcome this insurance for trailers, campers, and RVs, as they represent sizable investments on the part of their owners.

VÍS hf and the United Pension Fund signed an agreement for the sale of so-called disability protection during the year. Disability protection is a new product among VÍS' offerings but is only available through the United Pension Fund.

Distribution network and collaboration

VÍS places strong emphasis on efficient and responsive service operations throughout Iceland. In order to improve services and move decision-making as close to the customer as possible, the country is divided into six regions. Each regional manager is responsible for the VÍS operations in his or her territory. This structure has proven successful, and VÍS has retained its strong market position in most areas of Iceland despite increased competition.

Since 2005, VÍS has been engaged in a very successful strategic alliance with Kaupthing Bank for the sales and marketing of insurance and financial services in Iceland. The mutual loyalty scheme, called Vöxtur, has been growing year by year and now has more than 15,000 members. A comprehensive financial and insurance service owned by VÍS and Kaupthing Bank, Vöxtur consists of banking services from Kaupthing Bank, general insurance from VÍS, life insurance from KB-líf and Lífís, home security services from Öryggismidstödin, and asset financing from Lýsing.

In early 2007, VÍS added one more channel to its sales network through an agreement with SPRON (Reykjavik Savings Bank), whereby VÍS insurance is now a part of SPRON's product offering. In addition to its co-operation with SPRON, VÍS also collaborates with a number of local savings banks around the country.

Insurance classes

VÍS is a general insurance company with broad distribution in terms of services and premium income. Motor insurance represents the largest class of business, with over 53% of gross premiums. The second-largest is property insurance, with 25% of gross premiums.

The main insurance classes are the following:

- *Compulsory motor insurance* is third-party liability insurance against physical injuries and property damage, as well as personal accident insurance for the driver and the owner of the vehicle. This insurance is mandatory for all registered vehicles in Iceland and is the largest insurance class, accounting for 38% of total premiums at VÍS.

- *Other motor insurance* insures against damage to the owner's own vehicle. This kind of insurance has become increasingly popular and is required when vehicles are financed through car loans or leasing.

- *In property insurance,* fire insurance is the largest insurance class. In Iceland it is compulsory to insure real estate against fire. The second-largest category is homeowners' insurance. VÍS has a strong market position in home insurance and has developed a combined policy that includes insurance of the contents of the home, personal accident and sickness insurance, and travel insurance, as well as legal expense coverage, credit card protection, and third-party liability insurance for the family.

- *Accident and sickness insurance* consists of two types of insurance: personal accident insurance and sickness insurance, which can be purchased together or separately. Personal accident insurance is offered to individuals, to employers on behalf of their employees, or to groups. It compensates claimants with a lump sum in the event of permanent or temporary disability or death resulting from an accident. Sickness insurance compensates claimants with a lump sum in the event of permanent or temporary disability.

- *General liability insurance* consists of two types of insurance: general third-party liability insurance, mainly for the corporate sector; and professional indemnity insurance, which is mandatory for some professions. There has been considerable growth in these insurance types due to increased economic activity, greater risk awareness, and legal requirements.

- *Marine insurance* is insurance against damage or loss of ships and cargo. VÍS' market share in marine insurance has not been significant; however, the company aims at enhancing its market position in this sector.

Reinsurance and risk control

VÍS transfers part of its underwritten risk to reinsurers. Under a reinsurance contract, the assuming reinsurer becomes liable to VÍS to the extent of the risk ceded, although VÍS remains liable to the insured as the insurer.

VÍS devises a reinsurance programme for each branch of business and for the company as a whole. The amount of risk that VÍS carries for its own account is determined with respect to the financial strength of the company and the nature of the risk.

The reinsurance programme is managed as a part of Exista's Group Risk Management unit and is continuously revised and developed so that it better meets the needs of VÍS and the Group as a whole. Underwriting risk is discussed in greater detail on page 34, in the section entitled Risk Management.

Technical provisions

Technical provisions are the sum of premium provisions and claims provisions. Premium provisions are the part of the collected premiums and reinsurance premiums that correspond to the unexpired period of the insurance policies. Claims provisions are amounts set aside for claims filed before the balance sheet date, but not paid. They are estimated according to claims history and are adjusted for cost of claims and claims for losses incurred but not reported. Then the estimated salvage value of the damaged assets is subtracted. Statistical methods and previous claims experience are used to estimate claims provisions.

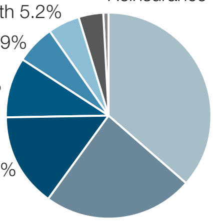
Performance in 2007

For the year 2007, operations at VÍS yielded an after-tax profit of EUR 126 million. The company's total assets amounted to EUR 343 million at year-end, and its equity totalled EUR 112 million. Income from own premiums increased by 36.6% during the year.

During the year, VÍS and Lífís' balance sheet was reorganised to reflect the core activities of the company. Equity was reduced, and changes were made to the portfolio in response to a regulation on the equalisation of assets against technical provisions.

Premiums written increased by 21%, and paid losses increased by 18% during the year. The loss ratio was 82.2% in 2007, compared with 87.6% in 2006. The combined ratio was 104.7% in 2007, compared with 115.4% in 2006. This positive trend is mainly due to increased premiums tariffs and other measures taken in order to improve the profitability of the insurance operation. Several large loss events were recorded during the year, the largest by far being extensive fire damage in the old town of Reykjavík. This loss represented the largest single claim VÍS has received in more than a decade. Several other unusually large losses were recorded during the year. In terms of traffic accidents, however, the year was relatively favourable in a historical perspective.

INSURANCE SEGMENTS BY PREMIUMS WRITTEN
YEAR-END 2007



Lífís life insurance

Lífís (Líftryggingafélag Íslands hf.) offers its clients life insurance and other health-related insurance. Lífís was established in 1990 and has grown considerably in recent years, especially in the areas of life and critical illness insurance. Lífís is the third-largest life insurance company in Iceland, with a market share of around 24% in terms of gross premiums.

Lífís has low fixed costs and a small number of employees, as the company utilises ancillary units at VÍS to a considerable extent. At the same time, Lífís uses a number of other sales channels - e.g., brokers and savings banks - in order to distribute its products. As is the case with VÍS, reinsurance and investments are managed by the parent company, Exista. Though the customer base consists primarily of individuals, companies have begun, in increasing measure, to purchase personal insurance for their key employees. Most Lífís customers are also customers of VÍS.

Lífís offers life insurance, critical illness insurance, unit-linked life insurance, and income insurance. The basic insurance policy offered by Lífís is term life insurance, which pays a specified amount upon the death of the insured. Critical illness insurance is a policy in which claimants receive a lump sum payment in the event of a critical illness covered by the policy. Unit-linked life insurance combines regular savings and life insurance and is exempt from tax. Income insurance is designed as a supplement to pension benefits or other insurance in the event of sickness or accident.

Lífís

ASSET FINANCE

Exista's asset finance business is operated through the subsidiary Lýsing, Iceland's leading asset finance provider. The largest company of its kind in Iceland, Lýsing has active business operations in both private and corporate markets.

Since its founding in 1986, Lýsing has shown solid and stable performance. The company has consistently sought to be an innovator in introducing new leasing products and new financing solutions for private and corporate clients.

Lýsing focuses on small and medium-sized enterprises and, in many cases, has grown with its customers and followed their expansion and prosperity. Lýsing's fundamental aim is to provide outstanding services so as to retain its competitive edge in the Icelandic asset financing market.

Regional markets

Although the Icelandic leasing market can be considered a mature one, leasing penetration is not as high as in many similar markets in Western Europe. The market doubled, however, between 2002 and 2007, with new contracts increasing from EUR 560 million to EUR 1,111 million in those five years. In Europe the annual growth of leasing markets correlates closely to the economic growth in each country, and the same applies to the Icelandic market.

In Northern Europe, leasing companies are predominantly owned by banks. This is also the case in Iceland. Of Iceland's three largest leasing companies, Lýsing is the only one not owned by a bank.

A salient characteristic of the Icelandic market – and one that sets it apart from other markets in Northern Europe – is that automobile and equipment manufacturers do not offer financing through their dealerships in Iceland.

Iceland's largest asset finance companies have designed services to meet the needs of individuals and corporations alike, in part due to the small size of the market. In Northern Europe, however, it is much more common for asset financing companies to specialise in either the private market or the corporate market, which tends to make it more difficult to compare sector categories between Iceland and Northern Europe.

The leasing market in Iceland

The construction and service sectors have traditionally been the most important sectors for Lýsing. However, private vehicle financing has grown steadily in recent years and is now the largest single segment of operations.

The company's two main competitors within the asset leasing business are SP-fjármögnun and Glitnir Asset Finance. The combined loan portfolio of these three firms amounted to approximately EUR 1.6 billion at the end of 2007, 43% of which is attributable to Lýsing's operations.

Vehicle financing contracts form the largest part of the portfolios for all the major leasing companies. Last year a new competitor, Avant, entered the market and took market share from all three of its competitors. However, Lýsing still remains the largest asset financing provider for private contracts, with a market share just over 30%.

Main products

In its commercial asset financing operations, Lýsing focuses on providing financing solutions for business equipment and commercial real estate purchases. For individual customers, the focus is on financing private vehicles. The company's core products fall into the following four categories:

- *Financial leases* are used to finance the purchase of assets that the customer wishes to acquire and use beyond the initial leasing period. The asset is formally owned by and carried in the books of the leasing company, and the customer acquires the asset at the end of the agreed leasing period. In many cases, financial leases are more convenient than borrowing.

LÝSING

- *Hire-purchase* contracts are used when the customer wants to own the leased asset and carry it on his books.

- *Operational leases* are usually structured as short-term (6 to 36 months) non-cancellable agreements, where the leasing company owns the asset and rents it out to the customer for a pre-defined period. At the outset, a repurchase agreement is made with the customer or the car importer concerning the purchase of the asset at the end of the lease term.

- *Direct loans* are offered as an alternative to leasing for both commercial equipment and private vehicles, usually against the first collateral lien on the asset.

Lýsing has strategic partnerships with retailers for automobiles, machinery, and equipment. Vehicle retailers are connected to the company through the Internet and are able to calculate financing figures and submit applications on behalf of their clients. Swift, reliable service is therefore a key feature of the relations between retailers and the company's advisors.

Swift online application handling

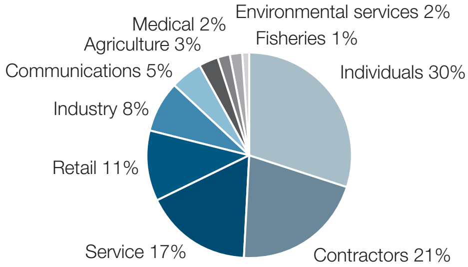
What sets the Icelandic environment apart is the financing available to automobile dealers through Internet-based loan systems. These systems can respond to dealers' requests for vehicle purchase financing within minutes; therefore, a customer's financing agreement can be completed at the dealership in a very short period of time.

Performance in 2007

The profit from operations of the asset finance arm totalled EUR 5.6 million for the year 2007, and return on equity was 9%. The cost-to-income ratio was 26%, down from 30% in 2006. At year-end 2007, Lýsing's CAD ratio was 10.6%.

Total assets increased by 10% over the year 2007. The loan portfolio amounted to EUR 694 million at year-end and grew by nearly EUR 60 million during the year. The average lifetime of a contract is approximately 4.9 years. Private individuals, the largest group of customers, represent approximately 30% of the total loan balance.

LOAN PORTFOLIO BY SECTOR
YEAR-END 2007



SAMPO GROUP

Sampo Group is the largest insurer in the Nordic region, as well as being a significant investor on a Nordic scale. The company's largest business is the property and casualty insurer, If, which is the leading non-life insurer in the Nordic region and has additional operations in the Baltic countries and Russia. Sampo also operates a life insurance business, Sampo Life, which offers life and pension products in Finland and, through its subsidiaries, in Sweden and the Baltics.

In 2007, Sampo Group reported a pre-tax profit of EUR 3.83 billion, generating a return on equity of 52.6%. The profit includes gains from the sale of Sampo Bank to Danske Bank for EUR 2.83 billion. This compares with net income of EUR 991 million in 2006. Sampo Bank contributed EUR 316 million to pre-tax profit during 2006. The proceeds received from the disposal have been partially re-invested in the listed Swedish bank Nordea, in which Sampo has built a stake during 2007 and 2008. The Nordea holding tied up EUR 0.9 billion in cash, and Sampo had an additional EUR 2.0 billion in cash.

At the end of February 2008, Sampo held over 10% of the outstanding shares in Nordea, with a market value of EUR 2.4 billion. Management has stated that the group will continue to invest in Nordea and will continue to purchase its own shares if valuations remain favourable.

In 2007, the pre-tax profit from the property and casualty business was EUR 534 million, compared with EUR 730 million in 2006. The decline can be attributed to a drop in investment income between 2006 and 2007. Property and casualty gross premiums totalled EUR 4,085 million, up 2% from the 2006 level of EUR 4,019 million. The combined ratio for the business was solid, or 90.6% for the year, compared with 89.9% in 2006. The P&C business grew in the Baltic area and Russia, and efficiency improved, with a cost ratio of 23.7%, as opposed to 24.0% in 2006.

Sampo Life posted a profit before tax of EUR 342 million, compared with EUR 295 million in 2006. Return on equity was 9.1%, down from 30.0% in 2006, due primarily to a drop in the market value of investments.

Sampo is listed on the OMX Nordic Exchange in Helsinki.

SAMPO GROUP - INCOME STATEMENT

(EUR millions)	2007	2006
Insurance premiums written	4,458	4,433
Net income from investments	974	1008
Other operating income	25	64
Operating income	**5,457**	**5,505**
Claims incurred	-3,195	-3,030
Change in liabilities for ins. and inv. contr.	-188	-353
Staff costs	-479	-483
Other operating expenses	-558	-572
Operating expenses	**-4,420**	**-4,438**
Finance costs	-67	-85
Share of associates' profit/loss	3	1
Profit from cont. operations before taxes	**974**	**984**
Taxes	-254	-281
Profit from continuing operations	720	703
Profit from discontinued operations	2,853	288
Profit for the period	**3,573**	**991**

SAMPO GROUP - KEY FIGURES

	2007	2006
Share price at year-end (EUR)	18.08	20.28
Market cap at year-end (EUR billions)	10.40	11.50
Exista holding at year-end (%)	19.98%	-
Market value of Exista holding (EUR billions)	2.10	-
Share increase over the year (incl. div.)	-6.3%	42.7%
Profit before taxes (EUR billions)	3.80	1.30
Profit for the year (EUR billions)	3.60	1.00
NAV per share (EUR)	13.49	9.21
ROE	52.6%	22.6%
EPS (EUR)	6.18	1.73
Combined ratio for P&C insurance	90.6%	89.9%
Group solvency ratio	774.6%	202.7%

Exista's view of Sampo Group

Sampo Group has an excellent track record of strong operational performance and a shareholder-friendly distribution policy. Its management has demonstrated the ability to merge and integrate companies successfully across borders. Sampo Group has a rather unique market position in the Nordic and Baltic area.

The company sustained strong underwriting performance in property and casualty insurance in 2007. We expect a modest deterioration in combined ratios as the insurance cycle turns through 2008 and 2009; however, profitability in this business should remain healthy. This will be supported by stable investment returns, as the equity market weighting is low.

The life insurance business is more exposed to volatile equity markets than other businesses are; however, Sampo Group remains strongly capitalised, with a high level of unrealised equity market gains reserved within shareholder funds. Through its stake in Nordea, Sampo Group is in an interesting position as regards the future development of the Nordic banking market.

Sampo Group is an associated company and a long-term strategic holding of Exista.

KAUPTHING BANK

Kaupthing Bank offers integrated financial services to companies, institutional investors, and individuals. The bank has operations in 13 countries. Its comprehensive service offerings include corporate banking, investment banking, capital markets services, asset management, and private banking. With sound organic growth and strategic acquisitions, Kaupthing Bank has been one of the fastest-growing financial institutions in Europe in recent years. Its core market is Northern Europe, and its largest operations are in Denmark, Iceland, and the UK.

In 2007 Kaupthing Bank continued to broaden its platform as a financial service provider of choice for SMEs and high-net-worth individuals. In October, Kaupthing acquired Robeco Bank Belgium, a small Belgian bank that focuses mainly on private banking and asset management. A few weeks later it purchased the deposit-taking business of Derbyshire Offshore on the Isle of Man. In the second half of 2007, Kaupthing opened branches in Qatar and Dubai, the first Nordic bank to commence operations in those locations. In August Kaupthing Bank announced its intention to acquire the Dutch merchant bank NIBC for EUR 2.99 billion. However, following the turmoil in the global financial markets beginning in the latter half of 2007, Kaupthing and the sellers of NIBC agreed not to proceed with the planned acquisition.

Despite growing turbulence in the financial markets, Kaupthing Bank enjoyed another strong year in 2007. Following a record year in 2006, it recorded net earnings of ISK 71.2 billion (EUR 813 million) in 2007, a decrease of 17.6%. However, the results for 2006 were favourably distorted by a one-off gain of ISK 21.4 billion (EUR 245 million) earned on the disposal of Kaupthing's holding in Exista. Had this single item been excluded, net earnings for 2007 would have increased by 9.6% compared with 2006. Kaupthing Bank reported a return on equity of 23.5% for 2007.

Excluding the Exista gain, net operating income for 2007 increased by 17.5% to ISK 165.8 billion (EUR 1.9 million). Profits in 2007 were driven by strong gains in net interest income, which grew by 53% to ISK 80.1 billion (EUR 915 million), and in net fees and commissions, which rose by 47.6% to ISK 55 billion (EUR 628 million).

Asset quality remained strong, with impairment on loans charged to the profit & loss account increasing to ISK 6.2 billion (EUR 71 million), which was broadly in line with the growth in lending. At the same time, the company incurred a charge of ISK 11.5 billion (EUR 129 million) after restructuring its portfolio of structured credit products following the upheaval in the fixed-income markets. Despite the issues affecting credit markets, the company's funding position remains robust. This follows a significant increase in customer deposits during the year.

Total assets amounted to ISK 5.3 trillion (EUR 58.3 billion), an increase of 35.8%, taking into account the 7.1% appreciation of the Icelandic króna in 2007.

Kaupthing Bank is listed on the OMX Nordic Exchange in Iceland and Stockholm.

KAUPTHING - INCOME STATEMENT

(EUR millions)	2007	2006
Net interest income	915	597
Net commission income	628	425
Net financial income	165	686
Other income	186	199
Operating income	**1,894**	**1,907**
Salaries and related expenses	-532	-383
Other operating expenses	-366	-301
Impairment	-71	-70
Profit before income tax	**925**	**1,153**
Income tax	-112	-167
Net earnings	**813**	**986**

ISK/EUR average exchange rate 2007: 87.60 / 2006: 87.67

KAUPTHING - KEY FIGURES

	2007	2006
Share price at year-end (ISK)	880	841
Market cap at year-end (EUR billions)	7.14	6.58
Exista holding at year-end (%)	23.7%	23.0%
Market value of Exista holding (EUR billions)	1.69	1.52
Share increase over the year (incl. div.)	6.1%	17.8%
Operating Income (EUR millions)	1.894	1.907
Profit for the year (EUR millions)	813	986
Cost/income ratio	47.5%	42.5%
Total assets (EUR billions)	58.3	42.9
Shareholders' equity (EUR billions)	3.77	3.42
CAD ratio	11.8%	15.0%
ROE	23.5%	31.3%
EPS (ISK)	95.2	94.9

ISK/EUR year-end exchange rate 2007: 91.20 / 2006: 94.61

Exista's view of Kaupthing Bank

The year 2007 proved to be a difficult year for banks around the world. Despite these headwinds, Kaupthing Bank delivered a strong performance during the year. Its operating results were underpinned by a healthy asset base and increasing diversity in both revenue streams and funding sources.

With dwindling economic activity and higher borrowing costs, the banking environment is likely to remain challenging in 2008. Kaupthing Bank has already prepared for a slowdown in the coming year by reducing costs and retaining a strong liquidity position. With a broad business model in terms of products, services and markets, supported by a well-capitalised balance sheet, Kaupthing Bank is well placed to meet the challenges ahead.

Kaupthing Bank is an associated company and a long-term strategic holding of Exista.

BAKKAVÖR GROUP

Bakkavör Group is a leading international food manufacturing company specialising in fresh prepared foods and produce. The Group operates 57 factories and employs over 20,000 people in nine countries. Its turnover in 2007 totalled GBP 1.5 billion (EUR 2.2 billion), with the UK accounting for 90% of sales.

Bakkavör Group has over 20 years' history and has grown briskly during that time. Today, the company is the UK's largest provider of fresh prepared foods and produce and is a leader in its key market areas. Bakkavör Group makes over 4,700 products in 17 categories, which are developed and sold predominantly under its customers' own brands. In addition to the UK and Iceland, the group also has operations in France, Belgium, Spain, the Czech Republic, South Africa, China, and the United States, and it is well positioned for further expansion.

Bakkavör Group made excellent strategic progress during 2007. In the UK, the Group acquired two businesses during the year: a fresh produce and fresh prepared foods company, and a flavourings and sauce producer. In France, Bakkavör Group acquired a leafy salads provider, and in the Czech Republic, the Group acquired a 51% stake in a fresh prepared foods manufacturer that supplies the Central European market. In China, Bakkavör Group acquired the remaining 60% stake in Creative Food, in co-operation with Glitnir Bank. Creative Food grows produce and packs around 250 salad products, supplying international supermarkets and foodservice chains in China.

In early 2008, Bakkavör Group announced its entry into North America through the acquisition of a Californian fresh and frozen prepared foods provider that specialises in the manufacture of bakery products, sauces, soups and savoury dips for the US retail and foodservice markets. Bakkavör Group also acquired a Chinese vegetable and fruit provider in early 2008.

Operating conditions were challenging for Bakkavör Group in 2007. Commodity prices soared, the British summer weather was unfavourable, and the economic slowdown affected retail sales in the UK. Bakkavör Group performed well against this backdrop, however. Sales rose by 21%, outstripping market growth. Like-for-like sales were up 6.3%, but margins were under pressure.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) rose by 1% to GBP 149 million (EUR 218 million), resulting in an EBITDA ratio of 10.1%. Operating profit (EBIT) amounted to GBP 110 million (EUR 161 million). Earnings per share from continuing operations declined from 2.6 pence to 2.2 pence, and return on equity decreased from 37% to 18.2%.

The group's total assets increased to GBP 1.5 billion (EUR 2.0 billion), compared with GBP 1.3 billion in 2006.

With the global trend in consumer food consumption shifting towards a healthier diet and increased demand for convenient fresh prepared foods made from high-quality ingredients, Bakkavör Group is well positioned for the future. Bakkavör's acquisitions in Europe and China in 2007 – and in the US early in 2008 – reflect the company's determination to grow as a world leader in fresh prepared foods.

Bakkavör Group is listed on the OMX Nordic Exchange in Iceland.

BAKKAVÖR GROUP SHARE PRICE DEVELOPMENTS IN 2007

BAKKAVÖR GROUP - KEY FIGURES

	2007	2006
Share price at year-end (ISK)	58.5	62.5
Market cap at year-end (EUR billions)	1.38	1.43
Exista holding at year-end (%)	39.63%	38.3%
Market value of Exista holding (EUR millions)	548.5	548.8
Share increase over the year (incl. div.)	-5.7%	23.4%
Net sales (GBP billions)	1.47	1.22
EBIDTA (GBP millions)	149.0	147.8
EBIDTA ratio	10.1%	12.1%
Operating profit (GBP millions)	110.0	113.9
Profit for the year (GBP millions)	47.4	68.2
Working capital from operations (GBP millions)	113	143
Total assets (GBP billions)	1.48	1.33
Shareholders' equity (GBP millions)	279	241
ROE	18.2%	37.0%
EPS from continuing op. (GBP pence)	2.2	2.6

Exista's view of Bakkavör Group

Bakkavör Group has historically delivered outstanding performance, driven by strong organic growth and strategic acquisitions. The company's performance has been underpinned by a management team with clear goals, sound business strategies, and an excellent acquisition track record.

The exceptional external conditions in 2007 tested and proved the fundamentals of the business. It can be expected that Bakkavör Group's performance during 2008 will be affected by increasing raw materials prices and reduced consumer spending due to turbulence in financial markets. However, Bakkavör Group has a focused international expansion strategy and will continue to be an active participant in the fast-growing convenience food market worldwide. Bakkavör's solid underlying business, high-quality fresh prepared foods, and balanced product offerings put the company in a strong position to meet the rapidly growing global demand for fresh prepared foods.

Exista's holding in Bakkavör Group is a long-term strategic investment.

STOREBRAND

Storebrand is a leading player in the Norwegian market for long-term savings and life insurance. The company is an integrated financial services group, with pensions and life insurance, banking and asset management activities, and property and casualty insurance provided by subsidiaries of the holding company Storebrand ASA.

Since 2002 Storebrand's financial performance has improved steadily. The group suffered significant operating losses in both 2001 and 2002, but Storebrand recorded a profit in 2003 and has improved its performance ever since. By 2007 its operating profit amounted to NOK 4.8 billion (EUR 600 million).

Similarly, the value of assets has increased across Storebrand, from approximately NOK 150 billion in 2001 and 2002 to NOK 223 billion in 2006. During this period, asset values in the Asset Management division rose 50% to NOK 217 million.

Since 2002 there has been a significant change in the corporate structure of Storebrand. In earlier years the company focused on disposing of businesses and streamlining operations. The most important transaction was the sale of Storebrand's P&C insurance business to Sampo Group in May 2004. After selling this major part of the business, Storebrand expanded its life insurance operations by acquiring SPP in September 2007.

SPP is a leading Swedish life insurance and occupational pension provider. SPP's businesses are active within the defined benefit and defined contribution occupational pension segment. The company is also active in mass market collectively agreed pension schemes and in the private pension segment. In addition, SPP provides advanced consulting services covering occupational pensions, insurance, and administrative solutions for municipalities and other organisations.

The SPP acquisition was financed by a significantly oversubscribed rights issue that increased the number of Storebrand shares by approximately 80%. The annual synergies expected from the acquisition amount to over NOK 400 million. As a result of this instrumental acquisition, Storebrand has become the leading life insurance and pension provider in the Nordic region. The transaction also gives the company superior geographical diversification, as the bulk of the life insurance and pension business is in Sweden, while the existing business is in Norway. Given a number of the provisions in Solvency II, there should also be capital synergies arising from this geographical diversification. Moreover, because the SPP acquisition strengthens Storebrand's presence in the Nordic area, it should provide the company with greater strategic and financial flexibility and enable it to participate more effectively in the financial services sector.

During 2007, Storebrand recorded a net profit of NOK 2,006 million (EUR 250 million), up 34% from its 2006 profit of NOK 1,496 million (EUR 187 million). The group's two largest divisions, Life Insurance and Storebrand Bank, grew significantly in 2007. In contrast, the Asset Management division recorded weaker results, as aggressive cost control measures failed to compensate for poor investment performance. The total dividend payable for 2007 is NOK 534 million, up 9% from NOK 449 million in the previous year. The dividend per share has dropped from NOK 1.80 to NOK 1.20. Dividends are payable to all shareholders, including holders of shares issued in the rights issue of December 2007.

STOREBRAND SHARE PRICE DEVELOPMENTS IN 2007

STOREBRAND - KEY FIGURES

	2007	2006
Share price at year-end (NOK)	56.70	66.62
Market cap at year-end (EUR billions)	3.20	2.01
Exista holding at year-end (%)	8.69%	-
Market value of Exista holding (EUR millions)	278.3	0
Share increase over the year (incl. div.)	-13.4%	43.9%
Total income (NOK billions)	33.39	34.07
Group profit (NOK billions)	2.02	1.59
Profit for the year (NOK billions)	2.01	1.51
EPS (NOK)	7.95	5.20
Capital ratio	9.2%	11.0%

NOK/EUR year-end exchange rate 2007: 7.93 / 2006: 8.23

Exista's view of Storebrand

Storebrand is a well managed and highly focused company that has consistently improved its financial performance over the past five years.

Since acquiring SPP, Storebrand is the leading life insurance and pension provider in the Nordic region. The transaction provides superior geographical diversification, as the majority of the company's life insurance and pension business is concentrated in Sweden, while Storebrand's existing business is in Norway. However, the full benefit of the acquisition will take some years to emerge.

Exista's holding in Storebrand is a long-term investment.

SKIPTI

Skipti is a holding company that invests in telecommunications and IT companies in Europe. Skipti's largest holding is Síminn (Iceland Telecom), which has a leading market share on the Icelandic telecommunications market and provides comprehensive telephone, mobile, internet and IP-television distribution services to households as well as corporate customers. Exista owns a 43.7% stake in Skipti, which is the Group's largest unlisted holding. Skipti is recorded on the balance sheet at a book value of ISK 13.5 billion (EUR 148 million), which is the acquisition price from the privatisation of the company. Exista led a consortium of institutional investors that won the bidding in 2005. Skipti is to be listed on the OMX Nordic Exchange in Iceland in 2008.

Skipti acquired three telecommunications companies in 2007: Aerofone, Business Phone, and Ventelo Denmark A/S. Aerofone is an independent service provider for business telecommunications and data solutions in the UK. Business Phone provides fixed line, mobile and internet connections in Denmark, and Ventelo Denmark A/S is a telecommunications and IT company focusing on the corporate market.

Skipti's performance was solid in 2007. Consolidated accounts show sales growth of 31%, driven by strong performance at Síminn and income from newly acquired companies. Skipti's earnings before interests, taxes, depreciation and amortisation (EBITDA) totalled ISK 9.5 billion (EUR 108.4 million), a 12% increase over the prior year. The EBITDA margin was 28.5%, compared with 33.1% in 2006, owing to Skipti's shift toward value-added services and IT. These newly acquired operations tend to include activities with a lower EBITDA margin than those of the existing business. Operating profit totalled ISK 5.3 billion (EUR 60.4 million), which was up 15% from 2006 and more in line with the sales growth than the rise in EBITDA. The reported net profit in 2007 was ISK 3.1 billion (EUR 35.2 million).

SKIPTI - KEY FIGURES

(EUR millions)	2007	2006
Total revenue	380.8	288.5
EBIDTA	108.4	96.3
Operating profit	60.4	52.5
Net income	35.2	-40.6
Total assets	1,070.6	939.7
Shareholders' equity	355.1	297.2
Cash from operations	98.8	91.5
Equity ratio	33.5%	33.1%
EBIDTA ratio	28.5%	33.4%

ISK/EUR average exchange rate 2007: 87.60 / 2006: 87.67
ISK/EUR year-end exchange rate 2007: 91.20 / 2006: 94.61

Exista's view of Skipti

Skipti continues to enjoy a strong position on the Icelandic telecom market and has established a foundation for profitable growth outside Iceland. Broad product offerings and diversified services have put Síminn at the forefront of telecom companies in Europe in terms of technology.

The company has steadily improved its operating performance and is well positioned to take advantage of opportunities in the European telecom and IT markets. Skipti is to be listed on the OMX Nordic Exchange in Iceland in 2008.

Exista's holding in Skipti is a strategic investment.

OTHER INVESTMENTS

Exista holds a number of smaller assets, including the following:

- Flaga Group: Since 2004, Exista has been a major shareholder in Flaga Group, a global leader in diagnostic equipment and treatment services related to sleep disorders. Exista holds 29% of share capital in Flaga Group, which is listed on the OMX Nordic Exchange in Iceland.

- SPRON: Since acquiring VÍS Holding in 2006, Exista has held 4% of share capital in SPRON (Reykjavík Savings Bank). SPRON is listed on the OMX Nordic Exchange in Iceland.

- JJB Sports: In June 2007, Exista acquired a 29% share in UK sports retailer JJB Sports, together with Chris Ronnie. Mr. Ronnie subsequently became CEO of the company. JJB Sports is listed on the London Stock Exchange.

In general, Exista significantly reduced its equity stakes and position-taking during 2007. However, the Group still holds a few smaller listed and unlisted assets, although these holdings constitute a small proportion of the Group's total assets.

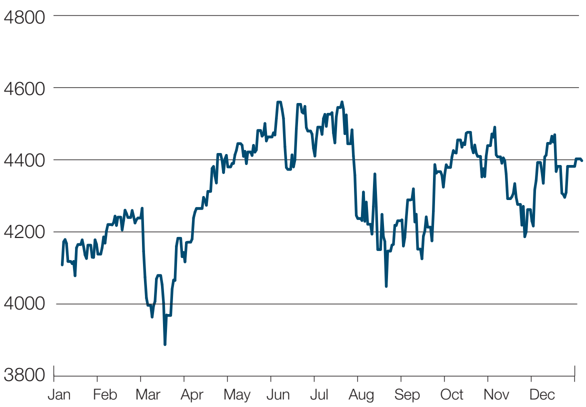
MARKET TRENDS

The global financial markets were choppy in 2007. Though the year began well and the economy looked healthy, also in emerging markets, the sub-prime mortgage crunch that began in the US spread to other countries and snowballed into a worldwide financial crisis. It affected banks first, triggering increased impairment losses and write-downs. In response, the banks sharply curtailed their lending activity, and lending costs soared. The resulting pressure on global economic growth has continued into 2008.

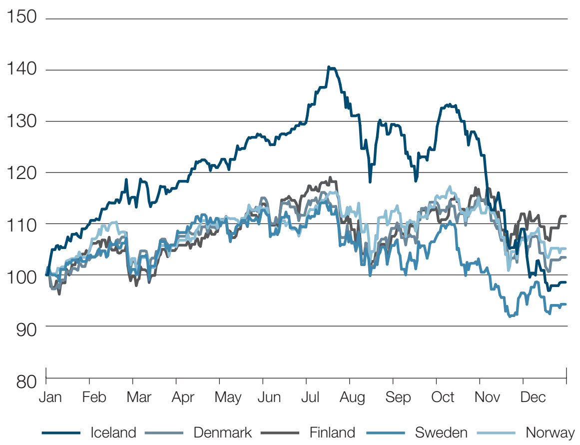
EQUITY MARKETS

Following four robust years, the global equity markets were rather volatile in 2007. During the year, the MSCI World Index rose by 4.7% and the EURO STOXX 50 index rose by 6.8%. The year began convincingly, with a strong performance that lasted until early July. The mounting sub-prime crisis in the US put significant pressure on the global markets over the summer, however. The severity of the crisis and the negative impact it made on business prospects became clearer during the autumn, sparking wider concerns about a possible economic recession in the US. These concerns then fuelled doubts about economic growth on a global level, not just in the US alone.

DOW JONES EURO STOXX 50 INDEX 2007



NORDIC EXCHANGES 2007
1 JANUARY = 100



Nordic markets

During 2007, the performance in the stock exchanges across the Nordic region diverged widely. The best performance was seen in the Oslo Bors Benchmark index, which rose by 13.7%. In contrast, Sweden's OMX Stockholm 30 index fell by 5.7%. The Icelandic OMX 15 index dipped a slight 1.4%. All of the indices peaked in mid-July, except the OMX Copenhagen 20 index, which rose to its highest level in mid-October. Over the course of 2007, the Icelandic OMX 15 index peaked in July, at 40% above the level on

THE SUB-PRIME MORTGAGE CRUNCH
THAT BEGAN IN THE US SPREAD TO OTHER COUNTRIES AND SNOWBALLED INTO A WORLDWIDE FINANCIAL CRISIS.

the first trading day of the year. For the other Nordic securities exchanges, the corresponding peak gains were closer to a range of growth within the mid-teens. During the second half of 2007, all of the Nordic stock exchanges saw declines in their main market indices.

Over the whole of 2007, the superior gains in Norway were underpinned by the performance of heavyweight stocks such as Norsk Hydro and Statoil Hydro, and by the relative lack of exposure to financial companies. The decline on the Swedish exchange was exacerbated by Ericsson, which fell by over 45% during the year, and by the heavy exposure to financials.
Across the Nordic financial sector, the OMX financial index fell by 13.5% in 2007. The index peaked in mid-April after rising nearly 9% but then dropped some 22% over the ensuing eight months, finishing the year just above its mid-December lows. Within the index, heavyweights such as Nordea, Sampo and Handelsbanken outperformed SEB, Danske Bank and Swedbank, particularly during the final quarter of the year. The index does not include Norwegian stocks. Of the major Norwegian financials, DnB NOR fell by 6.2% and Storebrand by 14.9%.

Global markets

Over the past four years, the performance of stocks has been driven by strong earnings growth. As earnings momentum began to slow in the third quarter, however, stock prices started to slide. The decline became especially pronounced during the fourth quarter, as earnings estimates and macroeconomic forecasts were lowered. The drop in equity prices was led by the banking sector, with banks' operating results reflecting a combination of increasing loan losses and tighter credit conditions. The downward trend was exacerbated by investor fears that more sluggish economic activity was beginning to affect the banks' underlying business. It then triggered downturns across the broader financial sector before affecting other segments of the economy, as expectations of consumer demand were lowered.

Emerging markets

In recent years, the upswing in the global economy has been driven by the economic transformation of countries described as emerging market economies. An ongoing effect of this change is the transfer of large industry segments from North America and Western Europe to emerging markets, where production costs are lower. The resulting creation of wealth in emerging markets has spawned huge increases in domestic demand, which can be seen not only in spiking commodity prices, but also in greater demand for cars, airplanes, various luxury goods, and a wide range of designer products. Another theme in emerging markets has been an increase in infrastructure investments, whether through the building of roads and bridges or through social and educational programmes. This trend looks set to continue over the coming years.

In a rather striking development, investors from emerging markets made their presence felt in global equity markets in 2007. Both private investors and sovereign wealth funds took advantage of plummeting stock prices to pick up considerable shareholdings in well-established US banks.

CURRENCY MARKETS

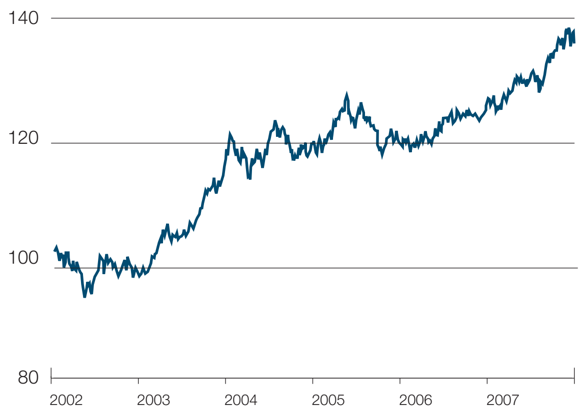
The most salient characteristic of the currency markets in 2007 was the striking weakness of the US dollar (USD). Over the course of the year, the dollar depreciated 10% against the euro, mostly owing to the rapid deterioration of the US housing market, which was under particular pressure at the sub-prime level. The resulting sub-prime crisis led to volatile trading conditions in Western stock markets and global currency markets throughout the latter part of 2007. Higher-yielding currencies such as the New Zealand dollar (NZD), the Turkish lira (TRY), and the Icelandic króna (ISK) suffered the worst downturns relative to lower-yielding currencies such as the Japanese yen (JPY) and the Swiss franc (CHF). In the UK, an unexpected cut in the base interest rate during December, together with negative sentiment about the state of the UK economy, had negative effects on the pound sterling (GBP), which lost ground in the last months of 2007.

EUR/USD EXCHANGE RATE 2007

The European market

The euro appreciated against most of the world's largest currencies last year, with the exception of the yen. Thus the trend of the past several years – the euro has appreciated almost uninterrupted since 2002 – has more or less continued. Short-term interest rates rose in the first half of 2007, underpinning the strength of the euro, but fell after mid-year, due particularly to the sub-prime crisis in the US and the ensuing interest rate cuts by the US Federal Reserve. Despite slowing economic growth in the latter part of the year, the European Central Bank (ECB) is still battling inflation, which measured 3% near year-end, well above the Bank's 2% target. In response to flagging economic growth, the ECB elected to maintain unchanged base interest rates despite inflationary pressures, as the likelihood of a further economic slump has increased in the wake of the US sub-prime crisis.

EUR TRADE-WEIGHTED INDEX 2002-2007



The Bank of England lowered its base interest rate from 5.75% to 5.50% last year in its first rate cut since 2005. Waning housing inflation toward year-end, together with dwindling consumer confidence, contributed to the pessimism about the state of the UK economy. The previously buoyant services sector also began to feel the effects of the economic slowdown. The pound suffered in 2007 and was trading at all-time lows against the euro. It also lost ground against the yen and was virtually flat against the similarly weak US dollar.

The US market

In the last quarter of 2007, economic data from the US began pointing towards a slowdown in the economy. Consumer consumption deteriorated as the decline in US house prices gathered momentum. The US Federal Reserve cut the federal funds rate on three occasions during the year, from 5.25% to 4.25%, in an effort to stimulate the economy. Another developing theme was rising inflation in the US, which left the Federal Reserve under pressure, as it faced the challenge of trying to fight inflation while the economy was showing signs of a sharp slowdown. The current account balance improved last year due to surging exports, but not enough to reverse the depreciation of the dollar. As the sub-prime crisis worsened, consumer confidence indices in the US fell to their lowest point in two years.

The Icelandic market

The Icelandic króna appreciated 4% last year. Faced with brisk economic activity, low unemployment, and high inflation, the Central Bank of Iceland decided to keep its policy rate high for a longer period than the market had previously expected. Unsurprisingly, the volatility of the króna increased as the US sub-prime crisis evolved, causing a ripple effect in the domestic stock market. The Central Bank kept its policy rate unchanged until early November and then raised it from 13.30% to 13.75% in an unexpected move.

S&P 500 INDEX 2007

ISK TRADE-WEIGHTED INDEX 2007

FINANCIAL OVERVIEW

Exista's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). The financial statements have been audited by the Group's auditors, Deloitte hf.

To facilitate comparison between years, it is appropriate to point out the primary changes made in Exista's operations and accounting methods between 2006 and 2007:

- As of the beginning of 2007, the Group's financial statements are prepared in euros. Prior to that time, they were prepared in Icelandic krónas.
- Since the beginning of 2007, the equity method has been used to record the Group's strategic holdings in financial companies (Sampo Group and Kaupthing Bank), whereas all strategic holdings were previously recorded at fair value. Strategic holdings in other companies are still assessed at fair value.
- As of 1 June 2006, the insurance company Vátryggingafélag Íslands (VÍS) and the asset financing company Lýsing were included in the accounts of the Exista Group, as were other assets held by the holding company VÍS eignarhaldsfélag hf. This affects the Group's revenue and expense items.

INCOME STATEMENT

Profit

Exista's profit before tax in 2007 totalled EUR 525.7 million, as opposed to EUR 436.6 million in 2006. Profit after tax totalled EUR 573.9 million, as compared with EUR 426.7 million in the prior year.

Earnings per share were 5.11 cents for the year. Return on equity was 23% in 2007.

Revenue

In comparing revenues between years, it is worth noting that since the beginning of 2007 the equity method has been used to record the Group's strategic holdings in financial companies – that is, Sampo Group and Kaupthing Bank – whereas all strategic holdings were recorded at fair value in previous years. This reversal affects financial assets at fair value through profit or loss, financial assets held for trading, and share of profit in associates. Furthermore, important sources were added to the revenue stream in June 2006, when the Group became a financial services group, adding the insurance and asset finance sector to its base.

Total revenues amounted to EUR 961.5 million in 2007, as opposed to EUR 696.7 million for the prior year.

Financial assets at fair value yielded capital gains of EUR 0.8 million during 2007, as opposed to EUR 357.6 million in 2006.

The loss on financial assets held for trading totalled EUR 46.3 million for 2007, as opposed to a gain of EUR 129 million in 2006. As Exista has developed from an investment company into a financial services group, the weight of its proprietary trading activity has diminished. Emphasis has moved increasingly toward market and equity research, as well as investment advisory services rendered within the Group. During the fourth quarter of 2007, the Trading unit reduced its short-term position-taking in the market and liquidated its portfolios. This improves the risk profile of the Group, enhances liquidity, and reflects the increased emphasis on financial services as the core operations of the Group.

CONSOLIDATED INCOME STATEMENT

(EUR millions)	2007	2006
Financial assets designated at fair value	0.8	357.6
Financial assets held for trading	-46.3	129.0
Dividend	12.6	78.7
Interest revenue	91.2	50.3
Insurance premium	129.0	73.6
Share of profits of associates	756.2	-
Other revenues	17.9	7.5
Revenues	**961.5**	**696.7**
Insurance claims	-104.4	-58.6
Operating expenses	-65.4	-51.1
Expenses	**-169.9**	**-109.6**
Profit before financial expenses	**791.7**	**587.1**
Interest expenses	-350.3	-104.1
Foreign exchange difference	84.3	-46.4
Profit (loss) before tax	**525.7**	**436.6**
Income tax	48.2	-9.9
Profit for the year	**573.9**	**426.7**

Dividend income totalled EUR 12.6 million for 2007, as opposed to EUR 78.7 million for 2006. The year-on-year drop can be explained by the fact that the dividends for the Group's associates, Kaupthing Bank and Sampo Group, are not recorded in the income statement. Instead, dividends of associated companies, which amounted to EUR 135 million in 2007, are recorded as a reduction in book value in the balance sheet.

Interest revenue, which is generated primarily by asset financing operations, totalled EUR 91.2 million during 2007, while interest revenue was EUR 50.3 million for the previous year. Asset financing activities were first included in the Group accounts in June 2006.

Revenue from life and non-life insurance premiums totalled EUR 129.0 million during the year. Insurance premium income amounted to EUR 73.6 million in 2006. Insurance premiums from insurance companies were included in the Group accounts for the first time in June 2006.

Share in profit of associates totalled EUR 756.2 million for the year. The calculation of Exista's share in the quarterly profits of the financial companies Sampo Group and Kaupthing Bank is based on the market consensus concerning these companies' profit for the period. If actual profit deviates from these estimates, the difference is recorded as income or expense in the next quarterly financial statements.

Expenses

Operating expenses totalled EUR 65.4 million in 2007, as opposed to EUR 51.1 million for the prior year.

Life and non-life insurance claims, which were first included in the Group accounts in June 2006, totalled EUR 104.4 million for the year, as opposed to EUR 58.6 million in 2006.

The Group's total expenses, including insurance claims, amounted to EUR 169.9 million for the year. In 2006, however, total expenses were EUR 109.6 million, which reflects the cost impact that the addition of insurance and asset finance businesses has had on Group's operations.

In 2007 the average number of Exista employees, including subsidiaries, was 433. Members of staff averaged 286 in 2006.

Operating profit, financial expenses, and taxes

Profit before financial expenses totalled EUR 791.7 million in 2007, as opposed to EUR 587.1 million in 2006. Interest expenses totalled EUR 350.3 million for the year, as compared with EUR 104.1 million in 2006. Increased interest expenses reflect the growth in the Group's balance sheet and funding.

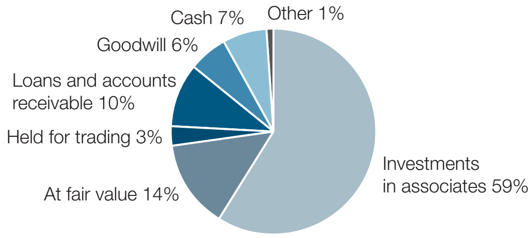
Net foreign exchange gains amounted to EUR 84.3 million for the year, against a loss of EUR 46.4 million in 2006. It should be noted that Exista's accounting currency is now the euro instead of the Icelandic króna. This has led to changes in the Group's currency hedging. In accordance with IFRS hedge accounting rules, currency hedging is now recorded in the Group accounts as a change in equity.

Income tax was positive in the amount of EUR 48.2 million for the year. The positive tax for 2007 is explained primarily by a deferred income tax liability that was dissolved in the first quarter.

INCOME STATEMENT 2007 BY QUARTERS

(EUR millions)	Q4	Q3	Q2	Q1	Total
Financial assets designated at fair value	-104.6	32.0	35.3	38.2	0.8
Financial assets held for trading	-156.3	-37.3	36.4	110.8	-46.3
Dividend	0.04	0.7	6.9	5	12.6
Interest revenue	30.3	23.2	19.3	18.4	91.2
Insurance premium	31.2	32.0	30.6	35.2	129.0
Share in profit of associates	48.4	92.5	158.3	457	756.2
Other revenue	7.2	4.2	3.3	3.3	17.9
Revenue	**-143.8**	**147.1**	**290.2**	**668.0**	**961.5**
Insurance claims	-28.3	-25.1	-24.5	-26.5	-104.4
Operating expenses	-18.8	-14.5	-15.5	-16.7	-65.4
Expenses	**-47.1**	**-39.6**	**-40.0**	**-43.2**	**-169.9**
Profit (loss) before financial expenses	**-190.8**	**107.5**	**250.2**	**624.8**	**791.7**
Interest expenses	-109.4	-106.2	-78.2	-56.4	-350.3
Net Foreign exchange difference	-6.2	8.7	52.7	29.0	84.3
Profit (loss) before tax	**-306.5**	**10.0**	**224.7**	**597.5**	**525.7**
Income tax	10.9	-2.6	-3.3	43.2	48.2
Profit (loss) for the period	**-295.6**	**7.4**	**221.4**	**640.7**	**573.9**

COMPOSITION OF ASSETS
YEAR-END 2007



BALANCE SHEET

Assets

Exista's total assets amounted to EUR 8,010 million as of 31 December 2007, an increase of EUR 3,615 million, or 82%, over the prior year.

Financial assets at fair value totalled EUR 1,123 million at the end of 2007. This is a decrease of EUR 1,149 million, or 51%, since the beginning of the year. The main reason for this change is that the Group's share in Kaupthing Bank is no longer entered at fair value, as in 2006, but is recorded as an associate using the equity method.

Financial assets held for trading, which consist mainly of the technical provisions of the insurance operations, totalled EUR 210 million at the end of the year. This is roughly EUR 627 million less than at the beginning of the year.

Loans and accounts receivable totalled some EUR 785 million at the end of 2007, up 12% since the beginning of the year, and are mostly due to the Group's asset financing activities. Asset financing agreements and loans totalled EUR 694 million at the end of the year.

The Group's goodwill, valued at EUR 469 million at the end of 2007, is due to the purchase of insurance and asset financing businesses in 2006. Goodwill accounts for less than 6% of total assets and has been tested for impairment.

Holdings in associated companies were valued at EUR 4,738 million at the end of the year. A substantial portion of these holdings is the Group's stakes in the financial services companies Sampo Group and Kaupthing Bank. In Exista's accounts, the book value of these assets is EUR 992 million above market value, according to the market price of 31 December 2007. The holdings were tested for impairment.

Reinsurance assets totalled EUR 10 million at the end of the year. Investment properties totalled EUR 70 million, and other properties and equipment amounted to EUR 28 million.

Cash and cash equivalents amounted to EUR 568 million at the end of 2007. Other assets totalled EUR 10 million.

Liabilities and equity

Exista's total liabilities amounted to EUR 5,642 million as of 31 December 2007, an increase of EUR 3,147 million since the beginning of the year. In broad terms, Exista's liabilities consist of borrowings and technical provisions.

Borrowings totalled EUR 5,124 million at the end of 2007, an increase of approximately EUR 2,941 million since the beginning of the year.

In the fourth quarter of 2007, Exista issued a hybrid security, Preferred Equity Certificates (PEC), in the amount of EUR 250 million.

Technical provisions totalled EUR 222 million at the end of the year, after having decreased by roughly EUR 2 million since the beginning of the year.

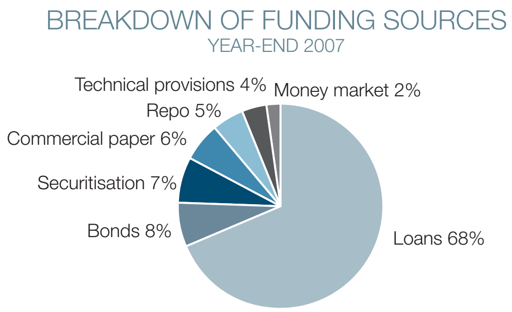
The Group's deferred income tax liability amounted to EUR 19 million at the end of 2007, as opposed to EUR 60 million at the beginning of the year.

The Group's equity totalled EUR 2,369 million as of 31 December 2007, an increase of EUR 469 million, or 25%, since the beginning of the year.

The Group's equity ratio was 29.6% as of 31 December 2007.

CONSOLIDATED BALANCE SHEET

(EUR millions)	31 DEC 2007	31 DEC 2006	Change
Assets			
Financial assets at fair value through profit or loss	1,123.4	2,272.7	-51%
Financial assets held for trading	210.2	837.0	-75%
Loans and receivables	785.0	703.8	12%
Goodwill and other intangible assets	469.4	464.8	1%
Investments in associates	4,737.6	0.0	-
Reinsurance assets	10.1	15.8	-36%
Investment properties	70.1	0.0	-
Property and equipment	27.6	12.2	126%
Cash and equivalents	567.6	76.1	646%
Other assets	9.5	12.6	-25%
Total assets	**8,010.5**	**4,395.1**	**82%**
Equity			
Share capital	120.6	112.3	7%
Reserves	736.3	720.7	2%
Retained earnings	1,511.3	1,061.3	42%
Shareholders' equity	**2,368.1**	**1,894.3**	**25%**
Minority interest	0.6	5.9	-90%
Total equity	**2,368.7**	**1,900.2**	**25%**
Liabilities			
Borrowings	5,123.7	2,183.0	135%
Hybrid securities	250.0	0.0	-
Technical provision	221.5	223.9	-1%
Deferred income tax liability	18.8	60.2	-69%
Other liabilities	27.8	27.8	0.0%
Total liabilities	**5,641.8**	**2,494.9**	**126%**
Total equity and liabilities	**8,010.5**	**4,395.1**	**82%**



FUNDING & LIQUIDITY

Exista places great emphasis on dynamic funding operations and a strong liquidity position. Since acquiring its insurance and assets finance businesses in mid-year 2006, the Group has been systematically developing its funding operations as a financial services group. The funding structure has been centralised for the entire Group, funding sources have been expanded, maturities extended and focus shifted from secured to unsecured funding.

Funding operations in 2007

The year 2007 was an active one in terms of funding and refinancing for the Group. During the course of the year, a total of EUR 4.3 billion was raised through various financing arrangements. In addition, agreements for EUR 450 million in committed credit lines were completed. Exista utilised a wide variety of funding instruments, including syndicated loans, securitisation, bond issues, repo transactions, and commercial paper.

Funding and liquidity strategy

Exista focuses on three key principles: diversifying funding sources, extending maturities, and maintaining strong liquidity. This strategy was followed closely in 2007.

Diversification

During the year, Exista concluded two major international funding transactions that substantially broadened the Group's creditor base. In August, Exista signed a EUR 500 million senior unsecured credit facility, which was substantially oversubscribed by 27 banks from 12 countries, and in September, Exista completed a EUR 500 million asset-backed securitisation facility. The transaction, which is backed by a part of the Group's asset finance portfolio, has a ten-year maturity and is effectively a securitisation platform that can be expanded along with the growth of the portfolio.

Extension of maturity profile

In 2007, Exista placed emphasis on raising term funding – that is, liabilities with a maturity of three years or longer – in order to extend its maturity profile. The EUR 4.3 billion raised during the year has an average maturity of 3.7 years, compared to an average maturity of 1.8 years in 2006.

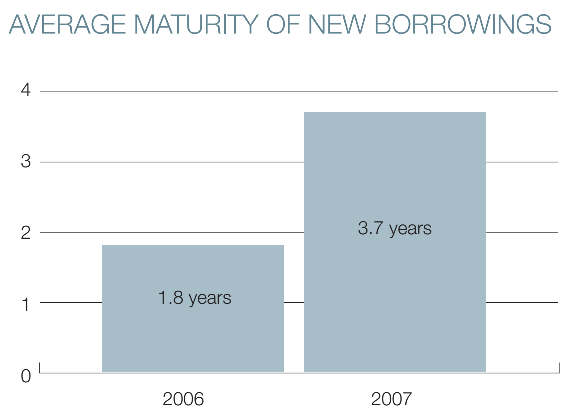
Maintenance of strong liquidity

As a wholesale funded entity, Exista maintains a conservative liquidity policy. Exista secured committed liquidity lines in the amount of EUR 450 million before year-end 2007, in order to support the Group's objective of maintaining strong liquidity at all times.

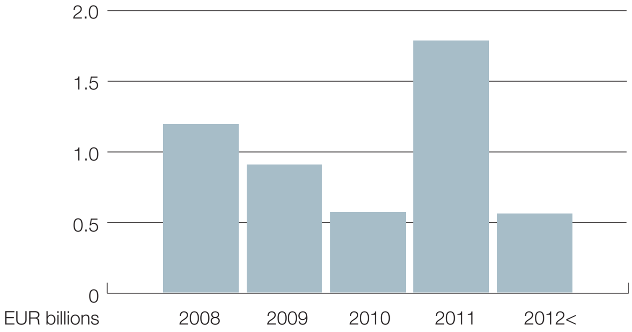
Liquidity management

Maintaining a solid liquidity position is central to Exista's funding policy. Internal liquidity requirements demand that, at a minimum, commited liquidity sources cover all obligations maturing within 26 weeks (180 days). Furthermore, internal requirements also demand that all debt maturing within 52 weeks (360 days) be covered with the addition of other liquidity sources.

At year-end 2007, the Group's committed liquidity covered 50 weeks of refinancing obligations. Committed liquidity includes cash and equivalents, committed credit lines, and repo-eligible securities. Not included are other liquid assets, estimated cash generation from insurance and asset finance activities, and proposed dividends from strategic holdings.



MATURITY PROFILE OF LONG-TERM BORROWINGS
31 DEC 2007



Creditor relations

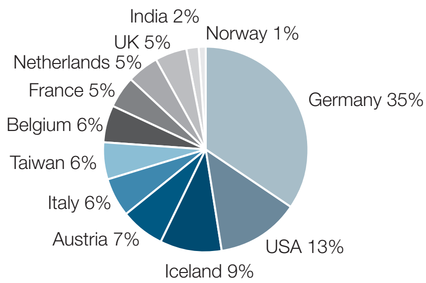
Exista recognises the importance of keeping debt investors well informed about the Group's financial performance and position, as well as its strategy and objectives. Exista provides stakeholders with up-to-date information about its performance and development through presentations and webcasts, as well as investors' meetings and news streams via various channels.

Exista's strategy for investor and banking relationships is based on frequent contact, open dialogue, and a targeted information stream. In 2007 Exista made a deliberate push into Europe and the US, broadening its investor and banking relationships and raising the company's profile as a borrower in the international capital markets. In order to place further emphasis on this part of the Group's operations, the funding and liquidity management was vested in a separate Treasury unit, which commenced operation in early 2008 and maintains staff in the Group's offices in Reykjavík and London.

Deal Review - EUR 500 million syndicated loan

- EUR 500 million senior unsecured syndicated loan signed in August 2007
- Transaction upsized due to large demand
  – Initial launch of EUR 200 million deal
- The facility has two tranches
  – A three-year tranche: EUR 407.5 million, paying a margin of +130 bps
  – A one-year tranche: EUR 92.5 million, paying a margin of +62.5 bps
- A total of 27 banks from 12 countries participated in the transaction
- Mandated lead arrangers were Bayerische Landesbank, Fortis Bank, HSH Nordbank and Raiffeisen Zentralbank Österreich (RZB)
- Among the most successful inaugural syndicated loans to come out of the Nordic region

GEOGRAPHICAL DISTRIBUTION OF LENDERS



ANNUAL ACCOUNTS

ENDORSEMENT OF THE BOARD OF DIRECTORS AND THE CEOs

The Consolidated Financial Statements for the year 2007 consist of the Consolidated Financial Statements of Exista hf. and its subsidiaries, together referred to as the Group. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and additional Icelandic disclosure requirements for listed companies.

According to the Consolidated Financial Statements, profit for the year amounted to EUR 574 million, compared to EUR 427 million for the prior year. According to the Consolidated Balance Sheet, total assets at year-end amounted to EUR 8,010 million, compared to EUR 4,395 million at the prior year-end. Equity at year-end amounted to EUR 2,369 million, compared to EUR 1,900 million at the prior year-end. The Group's equity ratio was 29.6% at year-end 2007.

At 31 December 2007, Exista's shareholders numbered 29,663, as compared to 31,410 at the beginning of the year. One shareholder owned more than 10% of the shares at year-end, Bakkabraedur Holding B.V., which owned 45.21%

It is the opinion of the Board of Directors and the CEOs that the accounting policies used are appropriate and that these Consolidated Financial Statements present all the information necessary to give a true and fair view of the Group's assets and liabilities, financial position and operating performance, as well as describing the principal risk and uncertainty factors faced by the Company.

Today the Board of Directors and the CEOs of Exista hf. have discussed and approved the Consolidated Financial Statements for the year 2007 with their signature. The Board of Directors recommend that the Annual General Meeting approve the Consolidated Financial Statements.

Reykjavík, 31 January 2008

Board of Directors

Lýdur Gudmundsson
Chairman

Ágúst Gudmundsson | Gudmundur Örn Hauksson

Bogi Pálsson | Sigurjón Rúnar Rafnsson

Robert Tchenguiz

CEOs

Erlendur Hjaltason | Sigurdur Valtýsson

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and shareholders of Exista hf.

Report on the Financial Statements

We have audited the accompanying financial statements of Exista 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 the 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 Exista 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 the EU.

Reykjavík, 31 January 2008

Deloitte hf.

Hilmar A. Alfredsson
State Authorised Public Accountant

Knútur Thórhallsson
State Authorised Public Accountant

CONSOLIDATED INCOME STATEMENT FOR THE YEAR 2007

	NOTES	2007	2006
Net gain on financial assets at fair value through profit or loss	7	0.8	357.6
Net gain (loss) on financial assets held for trading	8	(46.3)	129.0
Dividend	9	12.6	78.7
Interest revenue	10	91.2	50.3
Insurance premium	11	129.0	73.6
Share of profits of associates	24	756.2	0.0
Other revenues	13	17.9	7.6
TOTAL REVENUES		961.5	696.7
Insurance claims	12	(104.4)	(58.6)
Operating expenses	14	(65.4)	(51.1)
TOTAL EXPENSES		(169.9)	(109.6)
PROFIT BEFORE FINANCIAL EXPENSES		791.7	587.1
Interest expense		(350.3)	(104.1)
Net foreign exchange gain (loss)		84.3	(46.4)
TOTAL FINANCIAL EXPENSES		(266.0)	(150.5)
PROFIT BEFORE TAX		525.7	436.6
Income tax	16	48.2	(9.9)
PROFIT FOR THE YEAR		573.9	426.7
ATTRIBUTABLE TO:			
Equity holders of the parent		573.7	427.8
Minority interest		0.2	(1.1)
		573.9	426.7
EARNINGS PER SHARE (CENTS):	19		
Basic		5.11	4.30
Diluted		5.11	4.30

Amounts are in euro millions

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2007

	NOTES	31 DEC 2007	31 DEC 2006
ASSETS			
Financial assets at fair value through profit or loss	20	1,123.4	2,272.7
Financial assets held for trading	21	210.2	837.0
Loans and receivables	22	785.0	703.8
Goodwill and other intangible assets	23	469.4	464.8
Investments in associates	24	4,737.6	0.0
Reinsurance assets	25	10.1	15.8
Investment properties	26	70.1	0.0
Property and equipment	27	27.6	12.2
Cash and equivalents	28	567.6	76.1
Other assets		9.5	12.6
TOTAL ASSETS		8,010.5	4,395.1
EQUITY			
Share capital	29	120.6	112.3
Reserves		736.3	720.7
Retained earnings		1,511.3	1,061.3
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		2,368.1	1,894.3
Minority interest		0.6	5.9
TOTAL EQUITY		2,368.7	1,900.2
LIABILITIES			
Borrowings	30	5,123.7	2,183.0
Hybrid securities	31	250.0	0.0
Technical provision	32	221.5	223.9
Deferred income tax liability	16	18.8	60.2
Other liabilities		27.8	27.8
TOTAL LIABILITIES		5,641.8	2,494.9
TOTAL EQUITY AND LIABILITIES		8,010.5	4,395.1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2007

	SHARE CAPITAL	RESERVES	RETAINED EARNINGS	MINORITY INTEREST	TOTAL EQUITY
Equity at 1 January 2006	91.8	204.8	719.1	0.0	1,015.8
Change in minority interest				6.9	6.9
Issue of share capital	22.7	561.1			583.8
Payment of dividends			(52.8)		(52.8)
Translation out		1.4	(1.4)		0.0
Profit for the year			396.4	(1.0)	395.4
Net buyback of own shares	(2.2)	(46.6)			(48.8)
EQUITY AT 31 DECEMBER 2006 *	112.3	720.7	1,061.3	5.9	1,900.2
Equity at 1 January 2007	112.3	720.7	1,061.3	5.9	1,900.2
Change in minority interest				(5.5)	(5.5)
Issue of share capital	5.9	139.7			145.6
Payment of dividends			(123.7)		(123.7)
Profit for the year			573.7	0.2	573.9
Net sale of own shares	2.3	54.9			57.1
Changes in equity of associates		(14.0)			(14.0)
Exchange difference arising on translation of foreign operation		(165.0)			(165.0)
EQUITY AT 31 DECEMBER 2007	120.6	736.3	1,511.3	0.6	2,368.7

*The Company changed its reporting currency from Icelandic króna to euros as of 1 January 2007.
Comparative figures in equity for the year 2006 are tranlated to euros using the exchange rate at 31 December 2006 (94.61).

Amounts are in euro millions

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR 2007

	NOTES	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		573.9	426.7
Net investment and foreign exchange (gain) loss		35.2	(435.4)
Income tax recognised in Income Statement	16	(48.2)	9.9
Interest expenses recognised in Income Statement		350.3	104.4
Technical provision, change		(2.4)	6.2
Share of profits of associates	24	(756.2)	0.0
Deferred income tax liability, change		(39.1)	8.4
Dividends from associates	9	135.4	0.0
Depreciation and amortisation	23, 27	3.4	5.6
		252.2	125.9
Movements in working capital:			
Loans and receivables, change		(72.4)	(187.9)
Payables, change		(0.0)	154.3
CASH GENERATED FROM (TO) OPERATIONS		179.8	92.3
Interest paid		(212.8)	(90.7)
Income tax paid		(1.5)	(1.6)
NET CASH (USED IN) GENERATED BY OPERATING ACTIVITIES		(34.4)	(0.1)
INVESTING ACTIVITIES			
Financial assets		(2,396.2)	(738.1)
Investment properties		(63.4)	0.0
Property and equipment		(5.2)	(1.4)
NET CASH (USED IN) GENERATED BY INVESTING ACTIVITIES		(2,464.8)	(739.4)
FINANCING ACTIVITIES			
Proceeds from borrowings		3,115.3	795.2
Proceeds from issue of share capital		0.0	21.3
Dividends paid to equity holders of the Parent	18	(123.7)	(52.8)
NET CASH (USED IN) GENERATED BY FINANCING ACTIVITIES		2,991.6	763.7
NET INCREASE IN CASH AND EQUIVALENTS		492.4	24.2
Cash and equivalents at the beginning of the financial year		76.1	52.5
Effects of foreign exchange rate changes		(0.9)	(0.6)
CASH AND EQUIVALENTS AT THE END OF THE FINANCIAL YEAR		567.6	76.1
INVESTING AND FINANCING ACTIVITIES NOT AFFECTING CASH FLOW			
Investment in associates		(203.0)	
Issued share capital		203.0	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Exista hf. is a company incorporated and domiciled in Iceland. The Consolidated Financial Statements for the year ended 31 December 2007 comprise Exista hf. (the Parent or the Company) and its subsidiaries (together referred to as the Group).

The principal activities of the Group are insurance and asset finance, together with strategic holdings as a major shareholder in several of Iceland's largest companies and the Finnish financial services company, Sampo Oyj. The Group concentrates on Northern Europe as its core market.

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 (see note 33).

Four Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) 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 but 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 of the Group in the period of initial application.

Amounts are in euro millions

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 the European Union (EU).

3.2 Basis of preparation

The Consolidated Financial Statements have been prepared on the historical cost basis, except for the following assets and liabilities that are stated at their fair value: financial instruments designated at fair value through profit and loss, financial instruments held for trading, and financial liabilities held for trading. The principal accounting policies are set out below.

The Consolidated Financial Statements are prepared in euros (EUR). The change in functional currency from Icelandic krónas to euros was made as of 1 January 2007, upon receipt of the proper authorisation from regulatory authorities. This change is carried out in order to reflect, in a more transparent way, the focus of the Group's operation and economic changes with regards to the euro exposure as its main currency. The comparative figures for the same period in 2006 have been translated to euros.

3.3 Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity 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 Group.

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 3.4 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 Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquirer'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 Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquirer'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 that 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.

Investments in associates held for the purpose of venture capital organisations are designated as financial assets at fair value through profit or loss and accounted for in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

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 and loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described in note 3.5 above.

3.7 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.

3.7.1 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 lease term.

3.7.2 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 note 3.9). 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.

3.8 Foreign currencies

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 euros (EUR), 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 foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences that relate to assets under construction for future productive use, which are included in the cost of those assets where 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 hedge 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 euros 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.

3.9 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 prepare 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 affects 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 which they are incurred.

3.10 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

3.10.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net 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.

3.10.2 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 accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which 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 arising on investments in subsidiaries and associates, except where the Group 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 profit 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 Group 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 Group intends to settle its current tax assets and liabilities on a net basis.

3.10.3 Current and deferred tax for the period

Current and deferred tax are recognised as expense or income in the Income Statement, 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 the cost of the business combination.

3.11 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, as follows:

Property 2-4%
Equipment 20-35%

The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

The gain or loss arising on the disposal or retirement of a property or an equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Income Statement.

3.12 Investment property

Investment property, which is property held to earn rental income and/or for capital appreciation, is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

3.13 Intangible assets

3.13.1 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 the estimated useful live of the assets concerned. 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 accounted for on a prospective basis.

3.13.2 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.

3.14 Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group 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 assets 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 Group 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; 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, 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 the Income Statement, 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 as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a revaluation increase.

3.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event. It is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.16 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 they are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through the Income Statement, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit and loss' (FVTPL), 'held-to-maturity investments' (HTM), '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.

3.16.1 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 rate basis for debt instruments other than those financial assets designated as at FVTPL.

3.16.2 Financial assets at fair value through profit or loss

Financial assets are classified as at FVTPL where the financial asset is either held for trading or 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. Fair value is determined in the manner described in note 33.

3.16.3 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. HTM investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

3.16.4 Available for sale financial assets

Unlisted 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. Fair value is determined in the manner described in note 33. 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 rate 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.

Dividend 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.

3.16.5 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.

3.16.6 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
- the probability 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, or 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.

3.16.7 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.

3.17 Financial liabilities and equity instruments issued by the Group

3.17.1 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.

3.17.2 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.

3.17.3 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 nonconvertible 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.

3.17.4 Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets;* and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

3.17.5 Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

3.17.6 Financial liabilities at fair value through profit or loss

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 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 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. Fair value is determined in the manner described in note 33.

3.17.7 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.

3.17.8 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged or cancelled, or they expire.

3.18 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. Further details of derivative financial instruments are disclosed in note 33.

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.

3.18.1 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.

3.18.2 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 the 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.

3.18.3 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 or the hedging instrument expires, 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.

3.18.4 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, in the same line of the Income Statement as the recognised hedged item. 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 or 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.

3.18.5 Hedges of net investment 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.

Gains and losses deferred in the foreign currency translation reserve are recognised in profit or loss on disposal of the foreign operation.

3.19 Offsetting financial asset and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3.20 Insurance contracts

The Group issues contracts that transfer both financial and insurance risk from its customers.

3.20.1 Insurance contracts – definition

Insurance contracts are contracts under which the insurer accepts significant insurance risk from policyholders by agreeing to compensate the policyholders if a specified uncertain future event would occur.

Insurance risk is all risk, other than financial risk, that is moved from the policyholder to the insurer, such as accident, death or damage. Financial risk, however, is the risk of changes in the market environment.

3.20.2 Insurance contracts – classification

Insurance contracts are categorised in two groups according to how long the insurance risk lasts and whether the contracts are fixed or variable.

i) Property and casualty insurance:
Insurance contracts that are categorised as in this section are liability insurance, casualty insurance and property insurance.

Liability and casualty insurance contracts protect customers against the risk of causing harm to third parties as a result of their legitimate activities and compensates the policyholders' own damage in accordance with the terms of the insurance contracts.

Property insurance contracts compensate customers primarily for damage suffered to their properties or for the value of property lost. Customers in business can also receive compensation for the loss of earnings caused by the inability to use insured properties in their business.

ii) Life insurance:
These contracts insure events associated with human life, e.g. death or survival over a long duration. Premiums are entered as income in the period they are issued, and claims paid are entered as expense in the period that the insured event occurs.

3.20.3 Investments with investment risk of life assurance policyholders

Investments with the investment risk of life assurance policyholders are financial assets owned by the Group where the policyholders have selected and carry the investment risk in accordance with the life assurance policy. Technical provision for life assurance policies where the investment risk is borne by the policyholders is the Group's liability towards these policyholders in the same amount.

3.20.4 Technical provision

The Group assesses, at the end of the fiscal year, whether the recorded insurance liability can carry out the Group's estimated obligations by assessing future cash flows of the insurance liability. All changes in the insurance liability are recognised in the Income Statement. In performing these tests, current best estimates of future contractual cash flows, claims handling, administration expenses and investment income from the assets backing those liabilities, are used.

3.20.5 Reinsurance contracts

Reinsurance contracts are made in order to reduce the Group's risks. Reinsurance contracts can either be proportional or carry the entire risk in the case of a damage exceeding a fixed damage cost.

Claims on reinsurers due to premiums and claims are recognised as reinsurance assets. The claims concern the reinsurers' share in damages according to reinsured insurance contracts and share in premium liability. Obligations due to reinsurance are the reinsurers' share in premiums for reinsurance contracts which are recognised in the Income Statement at the time of the renewal of the reinsurance contracts.

3.21 Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

3.22 Income and expense

3.22.1 Insurance operations

i) Premiums

Premiums entered as income comprise the premiums contracted during the financial year, including premiums transferred from the prior year, but excluding premiums for the next year which are entered as premium reserve. Premium reserve entered as liability forms the part of premiums due to insurance risk for the period that belongs to the next financial year.

ii) Claims

Claims stated in the Income Statement are claims for the financial year, including changes in claims from prior years. Claims entered as an asset are the total amount of reported but unpaid claims, as well as actuarial provision for claims occurred but unreported.

3.22.2 Leasing operations

i) Interest income and expense

Interest income and expense are recognised in the Income Statement as they accree, using effective interest rates. Interest income and expense consist of interest expense from contracts and other differences in original book value and amount on the day of maturity, which are calculated using effective interest rates.

3.22.3 Financial operations

i) Changes in market value of investments

Changes in the market value of investments include changes in the price of listed shares in other companies and the changes in the valuation of unlisted shares.

ii) Dividend income

Dividend income is recognised in the Income Statement on the date that the dividend is declared. Income from equity investments and other non-fixed income investments is recognised as dividend income when it accrues.

3.23 Segment reporting

A business segment is a distinguishable component of the Group that is engaged in providing either products or services (business segment) and is subject to risks and rewards that are different from those of other segments.

3.24 Stock option contracts and obligations to increase share capital

The Group has made no stock option agreements.

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 judgments, 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 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 INFORMATION

5.1 Business segment

The Group's operation is based on two foundations: the Operating business and the Investment business. The businesses are monitored and supported by four divisions at group level: Group Finance, Group Risk Management, Group Legal and Group Communications.

Operating business

Exista Insurance comprises two subsidiaries that are wholly owned by the Group: the non-life insurance company Vátryggingarfélag Íslands hf. and the life insurance company Líftryggingarfélag Íslands hf.

The asset finance business of Exista is operated through its subsidiary Lýsing hf., which offers various financing products to commercial and private clients.

Exista Trading manages proprietary trading and asset management for the Group.

Investment business

Exista Investment is among Iceland's largest investment operations. It is organised in two businesses, Exista Strategic Holdings and Exista Other Businesses, where each business has a different time horizon and investment policy.

5.2 Segment revenue and result

	OPERATING	INVESTMENTS	TOTAL 2007	TOTAL 2006
Investment revenues	(52.6)	776.0	723.4	565.3
Insurance premium	129.0		129.0	73.6
Interest revenues	66.6	24.6	91.2	50.3
Other revenues	16.7	1.2	17.9	7.6
TOTAL REVENUES	159.7	801.8	961.5	696.7
Insurance claims	(104.4)		(104.4)	(58.6)
Operating expenses	(49.1)	(16.4)	(65.4)	(51.1)
TOTAL EXPENSES	(153.5)	(16.4)	(169.9)	(109.6)
Profit before financial expenses	6.2	785.5	791.7	587.1
Financial expenses	(33.4)	(232.5)	(266.0)	(150.5)
Profit (loss) before tax	(27.2)	552.9	525.7	436.6
Income tax	45.2	3.1	48.2	(9.9)
PROFIT FOR THE YEAR	17.9	556.0	573.9	426.7

Depreciation and amortisation in the operating segment amounted to 3.4 million during 2007. No depreciation nor amortisation was recognised in the investment segment during the year.

Amounts are in euro millions

5.3 SEGMENT ASSETS AND LIABILITIES

	OPERATING	INVESTMENTS	TOTAL 2007	TOTAL 2006
Financial assets measured at fair value	42.8	1.080.6	1,123.4	2,272.7
Financial assets held for trading	212.5	(2.3)	210.2	837.0
Loans and accounts receivable	737.5	47.5	785.0	703.8
Goodwill and other intangible assets	469.4	0.0	469.4	464.8
Investments in associates	0.0	4,737.6	4,737.6	0.0
Reinsurance assets	10.1	0.0	10.1	15.8
Investment properties	70.1	0.0	70.1	0.0
Property and equipment	27.6	0.0	27.6	12.2
Cash and equivalents	148.6	419.0	567.6	76.1
Other assets	4.7	4.8	9.5	12.6
TOTAL ASSETS	1,723.3	6,287.2	8,010.5	4,395.1
Borrowings	668.3	4,455.4	5,123.7	2,183.0
Hybrid securities	0.0	250.0	250.0	0.0
Technical provisions	221.5	0.0	221.5	223.9
Deferred income tax liability	18.0	0.9	18.8	60.2
Other liabilities	19.2	8.6	27.8	27.8
TOTAL LIABILITIES	926.9	4,714.9	5,641.8	2,494.9

Decrease in financial assets measured at fair value during 2007 is because the investment in Kaupthing banki hf. has been accounted for using the equity method since 1 January 2007 and classified as investment in associates since that date.

6. QUARTERLY CONSOLIDATED INCOME STATEMENTS

	2007				2006
	Q4	Q3	Q2	Q1	Q4
At fair value	(104.6)	32.0	35.3	38.2	24.6
Held for trading	(156.3)	(37.3)	36.4	110.8	103.8
Dividend	0.0	0.7	6.9	5.0	58.3
Interest revenues	30.3	23.2	19.3	18.4	22.8
Insurance premium	31.2	32.0	30.6	35.2	25.6
Share in profit of associates	48.4	92.5	158.3	457.0	0.0
Other revenues	7.2	4.2	3.3	3.3	2.5
TOTAL REVENUES	(143.8)	147.1	290.2	668.0	237.5
Insurance claims	(28.3)	(25.1)	(24.5)	(26.5)	(21.8)
Operating expenses	(18.8)	(14.5)	(15.5)	(16.7)	(17.6)
TOTAL EXPENSES	(47.1)	(39.6)	(40.0)	(43.2)	(39.4)
PROFIT (LOSS) BEFORE FINANCIAL EXPENSES	(190.8)	107.5	250.2	624.8	198.0
Interest expense	(109.4)	(106.2)	(78.2)	(56.4)	(37.7)
Net FX gains (losses)	(6.2)	8.7	52.7	29.0	(8.0)
PROFIT (LOSS) BEFORE TAX	(306.5)	10.0	224.7	597.5	152.3
Income tax	10.9	(2.6)	(3.3)	43.2	(4.8)
PROFIT (LOSS) FOR THE PERIOD	(295.6)	7.4	221.4	640.7	147.4

The summary of the Group's quarterly Income Statement is unaudited.

7. NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2007	2006
Shares – listed	(63.9)	289.0
Shares – unlisted	64.7	68.6
	0.8	357.6

Amounts are in euro millions

8. NET GAIN (LOSS) ON FINANCIAL ASSETS HELD FOR TRADING

	2007	2006
Shares – listed	(24.8)	108.0
Shares – unlisted	(2.2)	13.2
Funds – listed	(0.4)	0.8
Funds – unlisted	(0.4)	2.7
Bonds – listed	(12.3)	3.8
Bonds – unlisted	(1.2)	0.4
Other	(5.0)	0.0
	(46.3)	129.0

9. DIVIDEND INCOME

	2007	2006
Financial assets measured at fair value through profit or loss	5.0	75.2
Financial assets held for trading	7.7	3.5
	12.6	78.7

Total dividend received during 2007 amounted to EUR 148.0 million, thereof EUR 135.4 million from associated companies. Dividend from associated companies are not recognised in the Income Statement because they are accounted for using the equity method.

10. INTEREST REVENUE

	2007	2006
From leasing contracts	61.0	29.3
Other interest revenues	30.2	21.0
	91.2	50.3

11. INSURANCE PREMIUMS, NET OF REINSURANCE

	2007	2006
Premiums written	150.2	97.8
Reinsurers' share	(8.1)	(13.7)
Change in the gross provision for unearned premiums	(4.4)	(10.0)
Change in other tech. prov. of life assurance policyholders who bear the investm. risk	(0.6)	(2.5)
Change in the provision for unearned premiums, reinsurers' share	(7.7)	0.1
Unrealized gain on investm. of life assurance policyholders who bear the investm. risk	(0.3)	1.9
	129.0	73.6

12. INSURANCE CLAIMS, NET OF REINSURANCE

	2007	2006
Claims paid	105.0	59.3
Claims paid, reinsurers' share	(3.4)	(6.3)
Change in the provision for claims	2.4	6.5
Change in the provision for claims, reinsurers' share	0.5	(1.0)
	104.4	58.6

13. OTHER REVENUES

	2007	2006
Security services	12.3	5.7
Rental income	2.3	0.3
Value adjustments of investment properties	2.1	0.0
Other revenues	1.2	1.6
	17.9	7.6

14. OPERATING EXPENSES

	2007	2006
Salaries and related expenses	34.2	26.6
Administrative expenses	23.9	18.0
Depreciation and amortisation	3.4	5.6
Other operating expenses	3.8	0.8
	65.4	51.1

Amounts are in euro millions

15. SALARIES AND RELATED EXPENSES

	2007	2006
Salaries	29.0	22.6
Related expenses	5.2	4.0
	34.2	26.6
Average number of full-time equivalent employees	433	286

Executive employment terms and ownership:	SALARIES	* SHARES
Erlendur Hjaltason, CEO	0.35	24,760,862
Sigurdur Valtýsson, CEO	0.42	24,716,713
Lýdur Gudmundsson, Chairman	1.58	** 5,135,943,926
Ágúst Gudmundsson, Board member	0.03	** 5,135,943,722
Bogi Pálsson, Board member	0.03	173,297,238
Gudmundur Hauksson, Board member	0.03	*** 1,386,754,210
Robert Tchenguiz, Board member	**** 0	***** 579,101,094
Sigurjón R. Rafnsson, Board member	0.03	11,146
	2.47	

* Included are holdings of their spouses, dependent children, and companies owned and/or controlled by them.

** Bakkabraedur Holding B.V., the largest shareholder in Exista hf., is owned by Lýdur Gudmundsson and Ágúst Gudmundsson. Bakkabraedur Holding B.V. controls a total of 5,135,943,722 shares in Exista.

***Gudmundur Hauksson is the Chairman of Kista-fjarfestingarfélag ehf., which is the second largest shareholder of Exista. Kista-fjárfestingarfélag ehf. controls a total of 1,015,846,914 shares in Exista. Gudmundur is also the CEO of Sparisjódur Reykjvíkur og nágrennis (Reykjavík Savings Bank), which is the sixth-largest shareholder of Exista. Sparisjódur Reykjavíkur og nágrennis controls a total of 367,402,900 shares in Exista.

**** Robert Tchenguiz decided to donate his remuneration, EUR 31 thousand, to charity.

***** Castel (Luxembourg) S.a.r.l. is a wholly owned subsidiary of Glenalla Properties Limited. Glenalla Properties Limited is 95% owned by Investec Trust (Guernsey) Limited as Trustee of the Tchenguiz Family Trust, of which Robert Tchenguiz is beneficiary. Castel (Luxembourg) S.a.r.l. controls a total of 579,101,094 shares in Exista and is the third-largest shareholder.

16. INCOME TAX

16.1 Income tax recognised in profit or loss

In line with ongoing tax planning of the Group, strategic assets were transferred between subsidiaries during the year, resulting in a positive income tax in the Income Statement (a reverse of prior tax charge).

The total charge for the year can be reconciled to the accounting profit as follows:

	2007		2006	
Profit before tax		525.7		436.6
Tax calculated at domestic tax rate	18.0%	94.6	18.0%	78.6
Adjustment in respect of prior years	(9.2%)	(48.2)		
Effect of different tax rates of other jurisdiction	(17.6%)	(92.4)	(12.6%)	(55.1)
Tax effect of expenses that are not deductible	0.1%	0.4	0.1%	0.6
Tax-exempt revenues	(0.5%)	(2.7)	(3.2%)	(14.2)
	(9.2%)	(48.2)	2.3%	9.9

16.2 Deferred tax balances

	2007	2006
At beginning of year	60.2	0.4
Arising through mergers and acquisitions	6.2	52.1
Calculated income tax for the year	(48.2)	9.9
Income tax to be paid next year	(3.3)	(1.5)
Effects of cash flow hedges	(0.2)	0.0
Net foreign currency exchange difference	4.2	(0.7)
	18.8	60.2

Amounts are in euro millions

16.3 Deferred tax assets and tax liabilities are attributable to the following balance sheet items

	2007	
	ASSETS	LIABILITIES
Shares in other companies		4.1
Loans and receivables		13.1
Investment properties		2.5
Property and equipment		2.1
Carry-forward taxable loss	5.0	
Other items		1.9
	5.0	23.8

17. AUDITORS FEE

	2007	2006
Audit and audit-related services	0.4	0.3
Other professional services	0.3	0.3
	0.7	0.6

18. DIVIDEND PAID

On 30 April 2007, a dividend of ISK 1.00 per share, a total dividend EUR 124 million (ISK 10,838 million), was paid to shareholders. On 21 April 2006, a dividend of ISK 0.58 per share, a total dividend EUR 57 million (ISK 5,000 million), was paid to shareholders.

19. EARNINGS PER SHARE

	2007	2006
Net earnings attributable to equity holders of the Parent	573.7	427.8
* Weighted average number of shares for earnings per share calculation	11,230.5	9,942.9
Basic earnings per share (cents)	5.11	4.30
Diluted earnings per share (cents)	5.11	4.30

* Shares are registered in Icelandic króna (ISK).

20. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 DEC 07	31 DEC 06
Shares – listed	849.6	2,065.2
Shares – other	273.8	207.4
	1,123.4	2,272.7

Shares in listed companies are as follows:

	SHARE %	NOMINAL VALUE	CLOSING PRICE	31 DEC 07	31 DEC 06
* Kaupthing banki hf.	–	–	–	0.0	1,515.1
Bakkavör Group hf.	39.63%	855,151,478	ISK 58.50	548.5	545.8
Storebrand ASA	8.69%	39,097,164	NOK 56.70	278.3	0.0
** SPRON hf	4.26%	213,135,934	ISK 9.13	21.3	0.0
Other	–	–	–	1.5	4.4
LISTED SHARES TOTAL				849.6	2,065.2

* The investment in Kaupthing banki hf. has been accounted for using the equity method since 1 January 2007 and classified as investment in associates since that date.

** SPRON hf. was listed on the OMX Nordic Exchange in Iceland on 23 October 2007.

Shares in unlisted companies are as follows:

	SHARE %	ACQUISITION PRICE	CLOSING PRICE	31 DEC 07	31 DEC 06
Skipti hf.	43.60%	ISK 13,501,019,634	–	148.1	142.8
Other	–	–	–	125.7	64.6
UNLISTED SHARES TOTAL				273.8	207.4

Amounts are in euro millions

21. FINANCIAL ASSETS HELD FOR TRADING

	31 DEC 07	31 DEC 06
Shares – listed	58.0	678.6
Shares – unlisted	6.4	29.9
Funds – listed	64.9	31.8
Funds – unlisted	2.9	15.4
Bonds – listed	63.6	66.7
Bonds – unlisted	12.8	10.2
Other	1.6	4.4
	210.2	837.0

22. LOANS AND RECEIVABLES

22.1 By type

	31 DEC 07	31 DEC 06
Leasing contracts	710.7	568.0
Bonds and bills	17.6	94.9
Insurance receivables	31.0	37.2
Other	44.6	12.7
Provision for losses on receivables	(18.9)	(9.0)
	785.0	703.8

22.2 By maturity

	31 DEC 07	31 DEC 06
On demand	41.3	41.4
Up to 3 months	61.7	75.6
Over 3 months and up to a year	137.8	124.7
Over 1 year and up to 5 years	440.3	372.3
Over 5 years	103.8	89.9
	785.0	703.8

22.3 Movement in provision for losses on receivables

	31 DEC 07	31 DEC 06
At beginning of year	9.0	7.7
Impairment losses recognised on loans and receivables	15.5	3.2
Amounts written off as uncollectible	(6.4)	(2.0)
Amounts recovered during the year	0.6	0.0
Net foreign currency exchange difference	0.3	0.0
	18.9	9.0

23. GOODWILL AND OTHER INTANGIBLE ASSETS

	GOODWILL	CUSTOMER CONTRACTS	TRADEMARK	TOTAL
At beginning of year	464.8			464.8
Additions & assessment changes in fair value	1.8			1.8
Derecognised on disposal of a subsidiary	(4.3)			(4.3)
Purchase price allocated to intangibles	(6.0)	5.8	0.2	0.0
Purchase price allocated to other assets	(10.8)			(10.8)
Realisation of deferred tax liability	3.0			3.0
Changes relating to transfer of assets	(1.9)			(1.9)
Amortisation during the period		(0.6)	(0.0)	(0.7)
Net foreign currency exchange difference	17.5			17.5
	464.0	5.2	0.2	469.4

Allocation of acquired goodwill in the acquisition of VÍS eignarhaldsfélag hf. was completed during the year.

The amortisation expense has been included in the line item ‘operating expenses’ in the Income Statement.

The following useful lives are used in the calculation of amortisation:

Customer contracts	15 years
Trademark	15 years

23.1 Annual test for impairment

After the acquisition of VÍS Holding, the goodwill was distributed and divided among the cash-generating units (CGU). The goodwill was distributed among the CGUs according to purchase price allocation method. At year-end, an impairment test was performed on the CGUs Lýsing, Líffs and VÍS; it revealed no impairment. An impairment test model was built for each CGU and the value tested if it was above the goodwill. They all resulted in value greater than the goodwill; therefore, no impairment was necessary.

24. INVESTMENTS IN ASSOCIATES

Changes in investments in associates:

	2007
At beginning of year	0.0
Purchases of shares in associates	2,083.0
Transfers	1,995.3
* Share of results for the year	756.2
Dividend	(135.4)
Net foreign currency exchange difference	38.5
	4,737.6

* The share in Q4 operating results of Sampo Oyj and Kaupthing banki hf. is based on estimate performed and published by market analysts.

Amounts are in euro millions

Investments in associates are as follows:

NAME OF ASSOCIATE	NOMINAL VALUE	INCORPORATION	OWNERSHIP	PRINCIPAL ACTIVITY	MARKET VALUE 31 DEC 07
Kaupthing banki hf.	170,439,413	Iceland	23.02%	Banking	1,644.6
** Sampo Oyj	115,607,679	Finland	19.98%	Financial services	2,090.2
Other		–	–	–	10.5
TOTAL ASSOCIATES					3,745.3

** An agreement was completed in Q1 to acquire 55,340,400 A-shares in Sampo Oyj, held by Exafin B.V. Exafin B.V. was previously an indirect subsidiary of the Tchenguiz Family Trust. Prior to this transaction, the Group controlled 34,781,008 A-shares in Sampo Oyj.

In Q2 and Q3 the Group increased its holding in Sampo Oyj by purchasing 25.5 million additional shares. As of 31 December 2007, Exista is the largest shareholder and controls 115,607,679 A-shares in Sampo, representing 19.98% of total share capital.

Market value compared to book value of investment in associates is as follows:

	31 DEC 07
Book value of associates	4,737.6
Market value of associates	3,745.3
BOOK VALUE EXCEEDING MARKET VALUE	992.3

At year-end it was assessed whether the Group's investment in associates were impaired by comparing their carrying amount with their recoverable amount. Because goodwill included in the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36, *Impairment of assets*. Instead, the entire carrying amount of the investment is tested under IAS 36 for impairment, by comparing its recoverable amount (higher of value in use and fair value less cost to sell) with its carrying amount. The impairment test concluded that there was no need for impairment of those assets.

25. REINSURANCE ASSETS

Reinsurance share in the technical provision is as follows:

	31 DEC 07	31 DEC 06
Premium reserve	2.0	6.1
Claims reserve	8.1	9.7
	10.1	15.8

26. INVESTMENT PROPERTIES

	2007
At fair value	
At beginning of year	0.0
Additions during the year	68.0
Increase in value adjustment	2.1
Net foreign currency exchange differences	(0.1)
	70.1

The fair value of the Group's investment property at 31 December 2007 has been determined at on the basis of a valuation carried out at that date by independent valuers and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation was determined at by reference to market evidence of transaction prices for similar properties and aggregate net rental income of the properties, in addition to all relevant expenses.

27. PROPERTY AND EQUIPMENT

Cost or valuation	PROPERTY	EQUIPMENT	TOTAL 2007	TOTAL 2006
At beginning of year	12.3	9.8	22.1	1.1
Additions	14.7	1.8	16.5	2.3
Acquisitions through business combinations	0.0	0.0	0.0	20.8
Disposals	(15.2)	(2.4)	(17.6)	(2.1)
Revaluation increase due to goodwill allocation	11.2	1.1	12.4	
Net foreign currency exchange difference	0.0	0.2	0.3	
AT YEAR-END	23.0	10.7	33.7	22.1
Accumulated depreciation				
At beginning of year	5.4	4.6	9.9	0.1
Charge for the period	0.9	1.8	2.7	1.9
Acquisitions through business combinations	0.0	0.0	0.0	8.7
Eliminated on disposal	(5.4)	(1.7)	(7.0)	(0.7)
Net foreign currency exchange difference	0.4	0.1	0.5	
AT YEAR-END	1.3	4.9	6.1	9.9
Carrying amount				
At beginning of year	6.9	5.3	12.2	1.1
AT YEAR-END	21.8	5.8	27.6	12.2

The assessment value and insurance value at year-end 2007 are as follows:

	ASSESSMENT VALUE	INSURANCE VALUE
Property	18.9	18.5
Equipment	4.9	0.3

28. CASH AND EQUIVALENTS

	31 DEC 07	31 DEC 06
Cash and bank balances	353.8	42.1
Term deposits	148.7	19.5
Money market deposit and current asset investments	65.0	14.5
	567.6	76.1

Amounts are in euro millions

29. SHARE CAPITAL

Share capital at 31 December 2007 amounted to ISK 11,361,092,458 (EUR 120,565,318) with the nominal value of each share amounting to ISK 1. Each share carries one vote and a right to dividend. Share capital was increased in Q1 2007 by ISK 522,346,339 (EUR 5,918,268). Own shares at 31 December 2007 amounted to ISK 1,162,791 (EUR 12,290). All shares are fully paid for.

Share capital is as follows:

	SHARES	RATIO
Total share capital according to Financial Statements 31 December 2007	120.6	99.99%
Own shares at 31 December 2007	0.0	0.01%
	120.6	100.00%

30. BORROWINGS

30.1 By currency

	31 DEC 2007	31 DEC 2006
Loans in CHF	152.4	225.2
Loans in DKK	40.2	43.3
Loans in EUR	3,263.9	786.4
Loans in GBP	49.4	54.8
Loans in JPY	125.3	160.4
Loans in NOK	0.0	61.9
Loans in SEK	0.2	0.0
Loans in USD	101.3	154.2
Loans in ISK	1,231.0	674.2
	4,963.7	2,160.5
Accrued interests	160.0	22.5
	5,123.7	2,183.0

30.2 By maturity

	31 DEC 2007	31 DEC 2006
On demand	0.0	16.3
Up to 3 months	557.9	268.2
Over 3 months and up to a year	748.0	801.6
Over 1 year and up to 5 years	3,377.0	1,057.1
Over 5 years	440.9	39.8
	5,123.7	2,183.0

30.3 By type

	31 DEC 2007	31 DEC 06
Bonds issued	397.1	318.0
Bills issued	338.3	123.7
Money market loans	83.5	47.5
Subordinated loans	15.8	16.3
Other loans	4,289.0	1,677.4
	5,123.7	2,183.0

30.4 Other information

	31 DEC 2007	31 DEC 06
Recourse borrowings	2,730.4	2,183.0
Non–recourse borrowings	2,393.3	0.0
	5,123.7	2,183.0

31. HYBRID SECURITIES

EUR 250,000,000 of Preferred Equity Certificates (PEC) were issued in the fourth quarter which rank prior only to share capital but are subordinated to all other present and future obligations of the Group, whether secured or unsecured. The PEC's are issued for indefinite time and have as such no maturity date. However, the certificates include provisions for a potential redemption on its fifth anniversary and every third anniversary thereafter. The PEC's bears interests which accrue over the life of the instrument and are only payable should they be redeemed.

32. TECHNICAL PROVISION

	31 DEC 2007	31 DEC 06
Claims reported and loss adjustment expenses	143.0	141.7
Claims incurred but not reported	28.6	26.2
Claims outstanding	171.5	167.9
Provision for unearned premiums	49.9	55.9
TECHNICAL PROVISION	221.5	223.9
Claims reported and loss adjustment expenses	7.4	8.5
Claims incurred but not reported	0.8	1.2
Claims outstanding	8.1	9.7
Provision for unearned premiums	2.0	6.1
REINSURERS' SHARE	10.1	15.8

Amounts are in euro millions

33. FINANCIAL INSTRUMENTS

33.1 Capital risk management

The Group manages its capital so as to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2006.

33.2 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability, and equity instrument, are disclosed in note 3 to the financial statements.

33.3 Risk management

The Board of Directors emphasises effective risk management and the Group operates a centralised Group Risk Management (GRM) unit in order to enforce that policy. The GRM unit reports directly to the CEOs. GRM makes sure that the significant risks to which the Group is exposed are identified, monitored, and managed through a framework of risk policies and procedures.

The Board of Directors determines overall risk tolerance levels. The CEOs oversee the day-to-day risk levels on behalf of the Board. A Risk Committee, an independent body composed of senior management and chaired by the Chief Risk Officer (CRO), is responsible for proposing limits and policies to the Board of Directors for its approval, and for verifying that risk is managed within accepted tolerance levels. The Risk Committee also reports on significant matters and risk concentrations to the Board of Directors.

The CRO is responsible for GRM operations. Reporting to the CRO are the four individual risk functions: market risk, credit risk, operational risk, and underwriting risk. Each function is responsible for monitoring the risk controls that apply to each risk factor in the Company and the subsidiaries, and for making sure that they are in line with the risk management goals of the management and Board of Directors. GRM is also responsible for working with the individual subsidiaries to establish best practise in risk management and to implement Group-wide reforms when new risk management practices develop. Group Treasury is responsible for managing the liquidity risk of the Group and reports quarterly to the Risk Committee. GRM makes sure that risk factors are identified and that effective procedures and guidelines are in place in order to limit risk and to quantify and control the Group's risk exposure, as well as ensuring that the Company and the subsidiaries enforce sufficient risk management.

The Group's insurance subsidiaries and its asset finance subsidiary are regulated by the Financial Supervisory Authority in Iceland (FSA). FSA ensures that the activities of these subsidiaries are in accordance with law and regulations, and that business practises are sound. The regulated subsidiaries report regularly to FSA, and the GRM monitors compliance with regulations and reports directly to FSA on exceptional requests.

33.4 Market risk

Investments in associates comprise 59% of total assets. Since 1 January 2007, these holdings have been accounted for using the equity method of accounting, thereby reducing the impact of market fluctuations on the Group's accounting profits, which would occur were such investments accounted for on a fair value basis. There is still an underlying market risk because a mismatch can develop between the accounts and the market value of the assets which would be realised if the assets were ever sold or marked down. The Group's listed holdings in financial assets measured at fair value and financial assets held for trading are marked to market on a current basis and are therefore affected by fluctuations on the equity markets. Financial assets measured at fair value and financial assets held for trading represent 14% and 3% respectively of the Group's total assets.

Financial assets held for trading represent the Group's proprietary trading and asset management for the insurance subsidiaries. Exista Trading is responsible for the asset management for the insurance subsidiaries as well as for proprietary trading. GRM monitors, manages and reports on the risks in the Group's proprietary trading portfolio, as well as on assets under management. All positions are marked to market intraday in the Group's systems. Stress tests and statistical tests are used to quantify and measure market risk.

The insurance subsidiaries portfolios are monitored by FSA and are structured to ensure that capitalisation is adequate and financial strength is maintained at all times. The portfolios are aimed at long-term investments, stable returns, diversified portfolios and minimal risk. FSA imposes limits on the maximum amount of each type of security held in the portfolio. Diversification limits are in place to ensure adequate diversification of assets. No single security or counterparty can amount to more than 10% of the portfolio, the only exception to this rule being government bonds. The Group's GRM Unit monitors these portfolios and ensures that they adhere to these limits, as well as Group-wide risk limits that have been approved by the Group's Board of Directors.

GRM performs regular stress tests on the Group's market assets, where extreme fluctuations are tailored and subjectively chosen based on historical experience and worst-case scenarios that give an indication of possible losses in a market crisis. The Group is sensitive primarily to equity market fluctuations in Northern Europe and in the financial sector.

33.5 Currency risk management

The Group undertakes certain transactions denominated in currencies other than its accounting currency, including the NOK, USD, JPY and ISK. Currency exposure is managed with asset and liability matching. Derivative financial instruments (primarily currency forwards) are also used to hedge risks associated with currency fluctuations relating to certain firm commitments and forecasted transactions. Group Treasury is responsible for managing the Group's currency risk. GRM monitors and reports daily on currency exposure and ensures that it remains within Board-approved limits. The total currency exposure must always be within 35% of the total equity of the Group as reported in the most recent financial statements. Further restrictions regarding exposure to individual currencies are set in the currency risk policy. For investments in associates and unlisted assets, the accounting currencies of the underlying assets are used in the currency balance. For listed equities, the currency of the primary listing is used.

The net carrying amounts of the Group's currency-denominated monetary assets and monetary liabilities at the reporting date are as follows:

	NET POSITION	
	2007	* 2006
EUR	(627.5)	(35.3)
NOK	301.8	59.8
USD	119.0	(14.4)
JPY	106.0	(38.7)
ISK	98.4	303.8
Other	3.8	(198.4)

* In 2006 the accounting currency of the Group was the Icelandic króna (ISK). Figures have been converted to euros (EUR) on the basis of the 2006 EUR/ISK exchange rate at year-end (94.61).

33.5.1 Currency sensitivity analysis

The following table details the Group's sensitivity to a 10% appreciation in the euro against the relevant currencies. The sensitivity analysis includes currencies other than the accounting currency, EUR, and adjusts their translation at the period end. A positive number indicates an increase in profit and equity where the EUR appreciates 10% against the relevant currency. For a 10% depreciation of the EUR against the relevant currency, there would be an equal and opposite impact on profit and equity.

Amounts are in euro millions

2007	NOK	USD	JPY	ISK
Effect on income	(30.2)	0.1	(9.7)	45.8
Effect on equity	0.0	(11.9)	(0.9)	(55.6)

2006	NOK	USD	JPY	ISK
Effect on income	(6.0)	5.4	3.9	Accounting
Effect on equity	0.0	(4.0)	0.0	currency

33.6 Interest rate risk management

The Group's total bond exposure (bonds and bond funds) amounted to EUR 76.4 million with an average duration of 6.23. A 100 bps increase in interest rates would result in an approximately EUR 4.8 million loss in value. This decrease would have a negligible effect on the equity ratio of the Group.

33.7 Credit risk management

The Group's credit risk exposure is concentrated primarily in the asset finance subsidiary Lýsing hf. Lýsing's portfolio is well diversified in loans and leasing contracts. Lýsing's policy is to fully hedge interest rate and currency risks inherent in its credit exposure. It has procedures in place that aim to match both the duration of their lending contracts with the terms of their funding, as well as fixed vs. floating interest rates. All of Lýsing's contracts contain provisions allowing Lýsing to change the interest rates on a monthly basis. This enables Lýsing to react quickly to changes in its funding profile. Since Lýsing is defined according to Icelandic law as a financial institution, it is regulated by FSA and reports quarterly to FSA on loans in arrears, exposure concentration and equity limits. It is Lýsing's policy to maintain a CAD ratio of 11%. The FSA requirement is an 8% CAD ratio for financial institutions. The CAD ratio for Lýsing was 10.58% at the end of 2007.

	2007	2006	2005	2004	2003
CAD ratio	10.58%	11.97%	11.40%	11.65%	11.58%

Lýsing has implemented procedures for the approval of loan applications. Credit approval authority up to a certain amount is assigned to employees according to their qualifications, experience and training. A credit committee meets daily to review all applications that exceed a certain amount, as well as all commercial applications. If the exposure is over the approval limit allowance of the credit committee, an approval from the Lýsing Board of Directors is required. The risk assessment procedures consider both the creditworthiness of the counterparty and the risks related to the specific type of credit facility and exposure.

Lýsing has a well-diversified asset-backed loan portfolio that grew by 5.6% in 2007. The write-off of the loan portfolio at the end of 2007 was 0.69%, calculated as total write-offs at year end against total loan portfolio at the beginning of the year. The ratio of provisions to total loans at the end of the year was 2.15%.

	2007	2006	2005	2004	2003
Provisions % loans	2.15%	0.82%	0.84%	2.17%	2.01%
Write-offs % loans	0.69%	0.32%	0.47%	0.41%	0.47%

33.8 Liquidity risk management

Group Treasury is responsible for liquidity management and continuously monitors the Group's liquid funds and maturing obligations, ensuring that all liabilities are met as they arise. The primary objective is to ensure that all obligations maturing within 180 days can be met with committed liquidity sources. Furthermore, all debt maturing within 360 days should be covered with the addition of other liquidity sources. Committed liquidity includes cash and equivalents, committed credit lines, and repo-eligible securities. Excluded from these calculations are other liquid assets, estimated cash generation from insurance and asset finance activities, and proposed dividends from holdings. Further information on the breakdown of borrowings can be found in note 30.

33.9 Underwriting risk

Underwriting risk is the risk that premiums collected from the insured will not be sufficient to meet the liabilities arising from underwriting insurance policies. The Group is exposed to underwriting risk connected to the subsidiaries VÍS, a non-life insurance company, and Lífís, a life insurance company. The main elements of underwriting risk are loss-frequency risk, loss-size risk, reinsurers' risk and technical provision risk. The following are the key figures and ratios related to the underwriting risk. Figures and amounts express the total insurance activity of the Group's subsidiaries, VÍS and Lífís unless otherwise stated.

Loss frequency risk is the risk that losses or certain types of losses become more frequent than expected and the insurance tariffs are based on. GRM conducts close and constant examination of the loss frequencies of the various insurance branches, especially in private insurance such as motor vehicle insurance, house owner's insurance and homeowner's insurance, where there are many policies and relatively high loss frequency. Using these examinations, GRM looks to discover trends in loss frequencies and take necessary action if needed.

Exista insurance segments – gross premiums 2007

Property	23.6%
Marine hull and cargo	3.8%
Compulsory motor	36.5%
Other motor	14.9%
General liability	5.9%
Accident and sickness	9.4%
Reinsurance	0.7%
Life and health	5.2%
	100.0%

Reinsurers' risk is the risk that a reinsurer will not be able to pay his share of a loss event. In severe loss events, the settlement can take many years. GRM has structured a reinsurance policy for insurance subsidiaries. The policy requires a minimum rating from an international rating agency for reinsurers participating in the reinsurance programs. The minimum rating depends on contract length. The policy limits the number of reinsurers in a programme, depending on the volume ceded and limits of cover. There are also limits on the maximum size of a loss ceded to a reinsurer, depending on rating and contract length. Reinsurers' ratings as a percentage of ceded premiums for 2007 and estimated figures for 2008 are as follows:

	2008	2007
AAA	1.9%	2.0%
AA	0.7%	1.5%
AA–	70.5%	65.2%
A+	13.2%	11.7%
A	0.6%	1.5%
A–	13.1%	17.2%
BBB+	0.0%	0.9%
	100.0%	100.0%

Amounts are in euro millions

Technical provision risk is the risk that the incurred losses or the underlying risk related to insurance portfolio are underestimated. Technical provisions consist of unearned premiums and loss reserves. Unearned premiums are the estimated amount of insurance liabilities of unexpired policies. Loss reserves are the amount of unsettled losses, both reported losses and losses that are incurred but not reported to the insurer. The strength of technical reserves is examined by a set of statistical methods that make it possible to estimate outstanding losses and risk margin.

The combined ratio is the sum of the loss ratio and the expense ratio. After a period with high combined ratio, measures were taken in 2006 to improve the underwriting result. The combined ratio for 2007 is 99.5%. Due to a high technical interest rate (9.6%), the investment return from insurance activities is high and the operating ratio in good order (86.3%). An improved combined ratio puts the insurance companies in a better position to meet decreasing interest rates in the near future. Below is a table depicting the combined ratio for the Group's insurance subsidiaries over the last five years:

	2007	2006	2005	2004	2003
Loss ratio	77.4%	84.9%	82.0%	76.6%	72.6%
Operating expenses ratio	17.2%	22.4%	25.0%	26.2%	23.9%
Reinsurance cost ratio	4.9%	5.9%	8.0%	6.7%	5.9%
Investment income ratio	15.3%	18.2%	19.0%	23.0%	20.6%
Combined ratio	99.5%	113.3%	115.0%	109.5%	102.3%
Operating ratio	86.3%	95.9%	96.6%	89.1%	84.9%

33.10 Operational risk

Operational risk is the risk of loss or damage, direct or indirect, from insufficient or failed internal processes, people and systems, or from an external cause. The Group's policy is to identify and reduce possible operational risk factors in its operations in a cost-effective manner. The Group aims to continually increase overall risk awareness among employees and to encourage employees to be actively involved in finding ways to further reduce operational risk. Each business area is responsible for organizing and monitoring the operational risk inherent in their operations. GRM helps assists the business areas to identify operational risk and develop control measures to manage it. GRM also assists in mapping and documenting business processes, thereby isolating and reducing risk related to those processes. This strategy reduces the occurrence of operational risk events, such as fraud, and minimises potential losses. It also helps in preparing for and managing future risk events.

IT risk is the risk of damage to the Group's value due to incomplete or inadequate processes and events related to information technology. The Group's IT strategy is to provide its employees with the highest quality of information available in the most secure manner possible; to maintain an awareness between IT budget, quality, and project duration; and to manage and optimise business processes, both in the Group's internal processes and in interaction with external parties.

GRM is in charge of identifying and responding to factors that may cause a failure in the confidentiality, integrity or availability of data and systems. The Group has in place an information security management system based on a model set forth in the ISO 27001 standard. The system has been reviewed by FSA and the Icelandic Data Protection Authority.

GRM actively works towards minimizing the IT risk inherent in the Group's operations. In line with the IT strategy, GRM works consistently towards enhancing data availability and data integrity; i.e., the assurance that data are consistent and correct. GRM monitors matters relevant to IT systems, information security, and reliability.

Regular backups of the Group's data are kept in a secure, remote location, guaranteeing no significant data loss in the case of unforeseen events. The backups are tested regularly for data integrity and restoration time.

Business continuity is important for the Group; therefore, Exista and its significant subsidiaries have in place a business continuity plan that has the purpose to ensure that key functions can be continued in situations of possible disruption. The plan is tested on a regular basis and updated at least annually.

Reputational risk is the risk of potential damage to a firm due to deterioration of its reputation. This damage can result in lost future opportunity, foregone (future) revenues, and decreased shareholder value. Exista's policy is to actively reduce the risk of possible loss directly related to deterioration of reputation and to be fully prepared to deal with a potential crisis should it arise.

Exista's subsidiaries Lýsing, VÍS and Lífís all operate under licenses from FSA. FSA regulates these subsidiaries in accordance with law and regulations by regular reporting and on-site audits. On occasion FSA requests information outside the scope of regular reporting. This exposes these subsidiaries to compliance risk, which may involve fines for non-compliance. To reduce this potential risk factor, GRM monitors adherence to regulations and reporting to FSA.

The legal environment is set by the Act on Insurance Activities (no 60/1994), Act on Insurance Contracts (no 30/2004), Act on Financial Undertakings (no 161/2002), Act on Official Supervision of Financial Operations (no. 87/1998), regulations based on these Acts, and guidelines issued by FSA. As a part of the European Economic Area, Iceland has adopted the directives of the European Union on insurance and financial activities. The Icelandic Financial Supervisory Authority is a member of the Committee of European Banking Supervisors (CEBS) www.c-ebs.org, the Committee of European Securities Regulators (CESR) www.cesr-eu.org, the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) www.ceiops.org, and the International Association of Insurance Supervisors (IAIS) www.iaisweb.org.

33.11 Fair value of financial instruments

The fair value of financial assets and financial liabilities is determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices from observable current market transactions and dealer quotes for similar instruments;
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and
- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

34. SUBSIDIARIES AND ASSOCIATED COMPANIES

NAME OF SUBSIDIARY	INCORPORATION	OWNERSHIP	PRINCIPAL ACTIVITY
Áskaup ehf.	Iceland	100.00%	Holding company
Dymbilturn ehf.	Iceland	100.00%	Holding company
Exafin B.V.	Netherlands	100.00%	Holding company
Exista B.V.	Netherlands	100.00%	Investments
Exista Holdings B.V.	Netherlands	100.00%	Holding company
Exista Invest ehf.	Iceland	100.00%	Investments
Exista Properties ehf.	Iceland	100.00%	Real estate
Exista Trading ehf.	Iceland	100.00%	Investments
Exista UK Ltd.	United Kingdom	100.00%	Investments
Fasteignafélagid Jörfi ehf.	Iceland	100.00%	Real estate
Flutningar ehf.	Iceland	100.00%	Holding company
Frásögn ehf.	Iceland	100.00%	Holding company
Holtasmári ehf.	Iceland	100.00%	Real estate
Líftryggingarfélag Íslands hf.	Iceland	100.00%	Life insurance
Lýsing hf.	Iceland	100.00%	Leasing
Pera ehf.	Iceland	100.00%	Holding company
Pond Street Investments ehf.	Iceland	100.00%	Investments
Vátryggingafélag Íslands hf.	Iceland	100.00%	Insurance
VÍS International Invest ehf.	Iceland	100.00%	Holding company
Öryggismidstöd Íslands hf.	Iceland	57.32%	Security

NAME OF ASSOCIATED COMPANY	INCORPORATION	OWNERSHIP	PRINCIPAL ACTIVITY
Árkaup ehf.	Iceland	35.70%	Holding company
Framtídarsýn hf.	Iceland	49.99%	Publishing
Haed 14 ehf.	Iceland	50.00%	Real estate
Íslensk endurtrygging hf.	Iceland	28.80%	Insurance
Kaupthing banki hf.	Iceland	23.02%	Banking
Sampo Oyj.	Finland	19.98%	Financial services

35. CHANGES WITHIN EXISTA

In April 2007 Exista sold all of its shares in IGI Group, a 54.4% stake in the company. The sale had a limited effect on Exista's Income Statement and balance sheet.

During 2007 Exista acquired 100% of the share capital in the real estate companies Holtasmári ehf. and Fasteignafélagid Jörfi ehf. The consideration was satisfied with a cash payment of EUR 36.8 million.

Acquisition of Holtasmári ehf. and Fasteignafélagid Jörfi ehf.

The following table shows the book values of the identifiable assets and liabilities acquired and their fair value to the Group:

Investment properties	68.0
Loans and accounts receivable	3.6
Other assets	0.1
Cash	0.0
TOTAL ASSETS	71.7
Deferred taxation	(2.3)
Borrowings	(25.5)
Other liabilities	(7.2)
TOTAL LIABILITIES	(35.0)
Net assets	36.8
Satisfied by:	
Cash payment	36.8

As 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 the acquisition had been completed on the first day of the financial year, the Group's operating profit for the period would have been EUR 1 million higher.

The operations of all acquired companies are integrated into the Company's current structure from the date of acquisition. Holtasmári ehf. and Fasteignafélagid Jörfi ehf. contributed EUR 3.9 million of revenue for the period between the date of acquisition and the end of the year.

36. 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.

Loans to CEOs and managing directors, and to companies wholly owned by these persons, amounted to EUR 4.5 million as of 31 December 2007 (2006: EUR 3.9 million). Loans to members of the Board of Directors and their wholly owned companies amounted to EUR 0 (2006: EUR 0).

Loans to subsidiaries amounted to EUR 930 million as of 31 December 2007. At year-end 2006, the comparable amount was EUR 394 million.

Amounts are in euro millions

37. OTHER MATTERS

The Group has granted its employees and employees of subsidiaries guarantees relating to the purchase of shares in Exista hf. in September 2006. At year-end 2007 the guarantees amounted to EUR 13 million (2006: EUR 14 million).

Customers' guarantees of a subsidiary amounted to EUR 35.7 million (2006: EUR 30 million).

38. EVENTS AFTER THE BALANCE SHEET DATE

There have been no material post-Balance Sheet events that require disclosure or adjustments to the Consolidated Financial Statements for the year 2007.

39. APPROVAL OF FINANCIAL STATEMENTS

The Consolidated Financial Statements were approved by the Board of Directors and CEOs and authorised for issue on 31 January 2008.

UNAUDITED INFORMATION

KEY RATIOS

	31 DEC 07	31 DEC 06
Earnings per share (EPS) – cents	5.11	4.30
Return on equity	23.02%	27.10%
Price earnings (P/E)	4.29	6.52
Price to book (P/B)	1.04	1.36
Price per share in ISK	19.75	22.50
Equity ratio	29.57%	43.20%
Internal value of shares	19.65	16.59
INSURANCE OPERATION:		
Combined ratio	99.50%	115.00%
LEASING OPERATION:		
Ratio of provision to lending position at period-end	2.15%	0.82%

	2007	2006
EUR/ISK RATES:		
Average exchange rate for the year	87.60	87.67
Year-end exchange rate	91.20	94.61

In the preparation of this report, Exista hf. has not taken into account any single shareholder investment objectives, financial resources or other relevant circumstances. All securities transactions involve risks, which include (among others) the risk of adverse or unanticipated market, financial or political developments and, in international transactions, currency risk. Due care and attention have been used in the preparation of any forecast information. Actual results may vary from forecasts, and any variation may be materially positive or negative. Forecasts, by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Exista.

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