Contents:

KAUPTHING BANK

FL Group (Stoðir) hf. and related parties.
Guðmundur Þór Gunnarsson, 24. September 2008.

Completed by the credit committee:

Customer	Stoðir hf. (formerly FL Group hf.) Síðumúla 24 108 Reykjavík

Definition

ID no.	Rating
601273-0129	**Watch list**

Sector Management activities of holding companies

Purpose / Overview

To give an overview of the exposure towards Stoðir and related parties.

Stoðir and related parties have suffered considerably in the devaluing equity markets. Due to the high debt load on Stoðir (over ISK 230 bln) and the fact that their assets are hardly yielding any cash to them at the moment, they are having difficulty in meeting margin calls, paying financing costs, paying for operating expenses as well as meeting future obligations.

Stoðir's (and related parties') only hope is that their creditors give them grace in paying interest and principal of their debt. Further to that, they need to sell more assets to decrease the debt load.

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Group Commitment

The below table shows the exposure Kaupthing has on Stoðir and related parties.

Stoðir hf.	Exposure (m ISK)	Security
PARENT:		
Stoðir hf.		
Loan 7384	12,129	Shares in Glitnir
Loan 7942	16,676	Shares in Glitnir and PM deposit
Derivatives	54	
	28,859	
Materia Invest ehf.		
Loan 2675	**6,324**	Shares in FL Group and Personal Guarantee from ÞMJ KGS and MÁ
Stodir in Kaupthing	**35,183**	

The exposure on Stoðir is mainly against shares in Glitnir bank. Loan 7942 is undersecured whereas loan 7384 is oversecured. Combined, the positions are close to being on par.

The reason Materia Invest is included in the Stoðir exposure is that their loan is against shares in Stoðir. Significant provisions have been made against the loan to Materia Invest ehf, due to declining market share of FL Group hf.

Stoðir have asked Kaupthing to waive the interest payments that are due in the beginning of October and at the end of November, this year.

Kaupthing will not increase the leverage on Stoðir.

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1. Executive Summary

Decision

Credit committee is requested to approve the £125mln receivables financing facility (advance rate to be 80% of approved debtors) to be made available to Bakkavör Finance Limited, an SPV set up for this transaction to buy the receivables from another Bakkavör Group SPV. These SPVs will be owned by Bakkavör Group Limited but will fall outside the main borrowing group. The facility will be structured such that it is without recourse to the Bakkavör trading entities. More detail on the structure is described later in the paper. KS&F's up-front fee for providing the facility will be 0.8% (£1.0mln) and with a margin of 2% and non-utilisation fee of 0.75% the RAROCE should be circa 27%.

The Borrower

Bakkavör Group hf. is the leading supplier of chilled ready meals and prepared salads within the UK. They are currently looking to increase their working capital facilities through a trade receivables backed financing of its UK debtor book.

Two separate SPVs will be set up to effect the transaction: The first SPV will purchase goods from the 27 Bakkavör UK entities for immediate onward sale to the Bakkavör customers and it will raise invoices on these customers. The second SPV will purchase receivables generated by the first SPV and fund the purchases through this facility.

Risk Analysis & Rationale

- It is without recourse to Bakkavör Group (except if Bakkavör deliver incorrect product)
- Experienced management team
- There is little control as the administration of the facility remains with the Borrower
- Debtor backed - recourse is to the major supermarket chains (largest exposure – 35% - to Tesco)
- The structure means that there are no creditors other than the bank in the Bakkavör SPV finance companies and, as such, provided the debtors are invoiced out of the finance company we should have good security
- Low incidence of returns after first 7 days after delivery as goods highly perishable
- Strong relationship with Kaupthing Group (linked both through ultimate ownership (Exista) and common directors)
- This should be liquidity neutral as the drawings are to be placed on deposit with Kaupthing hf Group
- However, there is a risk that if Bakkavör do not inform the RCF banks of this transaction that these banks may challenge Bakkavör's rights to sell the debtors (and the Counsels opinion that it is within the terms of the RCF loan agreement). There are various consequences of this and one is that the RCF banks enforce their security and demand the cash we hold be used to pay down the RCF.

2. Background

Transaction

This facility was introduced to KS&F by NM Rothschild (NMR) following an initial approach by the CEO of Bakkavör to Armann Thorvaldsson. The background to the need for this facility arising is that Bakkavör currently has £700mln of RCF facilities which are currently drawn at a level of £450mln. Thus, there is significant headroom but, in a look forward test, they may be unable to draw sufficient to meet their working capital needs at the end of September without coming close to breaching their leverage (net debt:EBITDA) covenant. Bakkavör plan to utilise the £125mln facility by initially drawing down £100mln to pay down the RCF facility and ensure there is no covenant breach. Richard Howes, the CFO has stated that this is the most prudent course of action as the £700m RCF loan agreement was constructed to allow for this type of receivables facility and therefore provide for greater headroom. The leverage covenant in the RCF ratchets downward and is phased as follows:

Each ¼ to 31 March 2008	4.00:1
¼ to 30 June 2008	3.75:1

Then each ¼ to 30 June 2010	3.50:1
Thereafter each ¼ to maturity	4.00:1

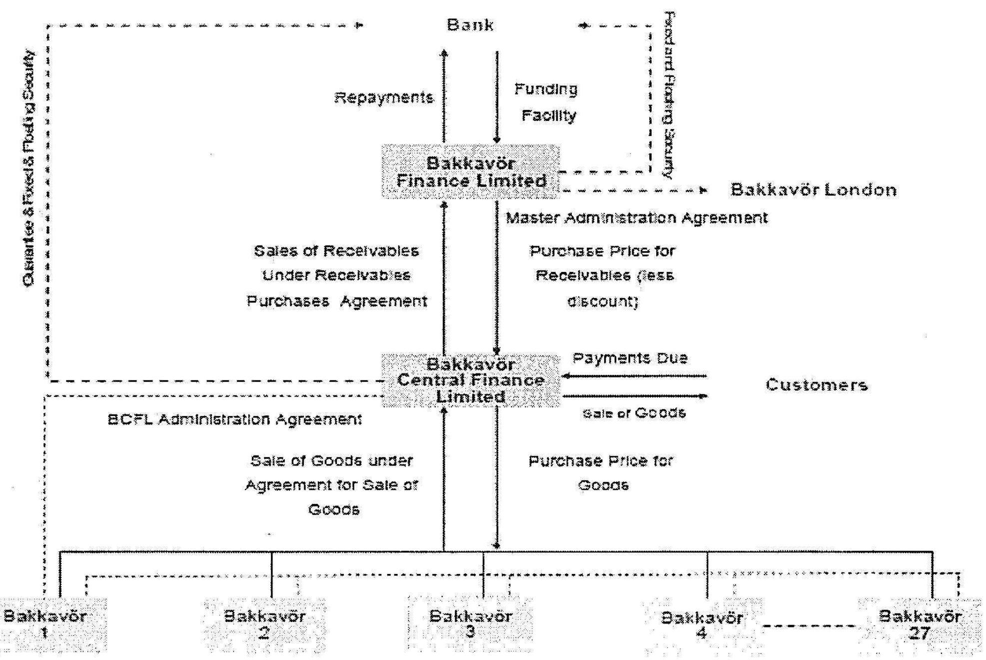
We have seen the covenant compliance certificate for 30th June 2008 and actual leverage was 3:62:1. The only other covenant in the RCF agreement is an interest cover covenant which was set at 3.5:1 at the inception of the facility in March last year and ratchets up to a maximum of 4.0:1. The ratchets apply as follows:

Each ¼ to 30 June 2008	3.50:1
Then each ¼ to 30 June 2009	3.75:1
Thereafter each ¼ to maturity	4.00:1

At the present time, Bakkavör Group have offers (not fully Credit approved) from Deutsche Bank and Rabobank and negotiations are taking place to refine the terms and determine which offer best suits Bakkavör. Initially Dresdner were also bidding but they withdrew on the day of the bid by Commerzbank citing the tight timescale as their reason. The original timetable has slipped as one of the lenders was to have been selected as MLA by 15th August but Rabobank have now received a strong indication that they will gain credit approval and they have agreed a term sheet with Bakkavör. Clifford Chance are reviewing the loan documentation against the agreed term sheet and Rabobank are leading discussions with the lawyers with the expectation that they will complete before the month end. Deutsche Bank remain in the background and are still taking the transaction to their Credit Committee but are unlikely to gain approval before the month end. We are asked to continue our process in case the other banks fall away.

The two banks bidding for the business are not proposing to syndicate the facility with Deutsche to hold it in their conduit whilst Rabobank will keep it on their own balance sheet. NMR feel the other banks are 70/30 in terms of completing by the end of September with Rabobank but they stress that they appear to have a strong appetite for the credit and are 80%+ for a completion before the end of October.

Deal Structure



Source Bakkavör

Bakkavör does not plan to advise the RCF syndicate banks about this facility as they are satisfied (supported by a legal view of Freshfields along with Counsels opinion) that they can proceed within the terms of the RCF

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agreement. The MLAs at the time the 5 year RCF was signed in March 2007 were ABN Amro, Banc of America, Barclays Capital, Rabobank, Fortis Bank, HSBC, Mizuho and RBS. Each bank took £87.5mln at the outset and thus RBS now holds £175mln following the acquisition of ABN. Some of the other MLAs have sold down and, whilst we do not have specific details, there are now 13 banks inclusive of the MLAs in the syndicate. RBS are far and away the largest.

As the structure involves the outright purchase of the debtors arising from the activities of the Bakkavör trading companies and our recourse is to the SPVs which fall outside the RCF borrowing group this facility will be "off balance sheet". However, the cash advanced under our facility will be held (by Kaupthing h.f. Group) in the name of a company within the borrowing group and, as such, will be "on balance sheet". We are unable to take a charge over this cash as it is technically caught under the debenture given to the RCF banks and we would be precluded from doing so anyway because of a negative pledge clause. Thus the Bakkavör borrowing group benefits from the additional cash in the net debt element of the leverage calculation.

This is non-recourse to the Bakkavör trading entities through a structure which involves an intermediate Bakkavör owned finance company (Bakkavör Central Finance Limited (BCFL)) buying the stock from the trading entities then selling it to the end customers. The debtors are then sold on to another Bakkavör owned finance company (Bakkavör Finance Limited (BFL)) which is the Borrower. The purchased debtors represent our security and are structurally remote (ring fenced) from the rest of the groups activities.

The purchase of receivables by BFL from BCFL will take place on a monthly settlement date. Procedurally, this means that cash will be collected in a designated account and used to purchase new receivables as they arise. To the extent that the amount of new receivables that become available are greater than the cash then the facility will be over-collateralised.

Effectively, we have been asked to agree a percentage of the acquired debtors which we are prepared to advance. This is calculated by taking the gross debtors and then deducting:

1. The "Yield Reserve" of 1.5% – this is the cost of funding for a defined number of days;
2. The loss rate - this is the average level of uncollected debtors (defined as debtors over 90 days) over 12m multiplied by stress factor of 2;
3. Returns for the last month (usually about 1.5%) multiplied by a stress factor of 2;
4. Retrospective discounts and rebates which are typically around 1.8%

The aggregate of the above deductions is in the range of 12% to 15% and, whilst NMR assert that this is conservative (given the stress factors), Deutsche & Rabobank are still considering a further comfort margin possibly reducing the advance rate to 80%.

It is proposed and accepted by the borrower that the facility documentation will be drafted to allow the Bank to restrict advances against a specific debtor if there is perceived to be a deterioration in the creditworthiness of that debtor. This test will be "subjective" and thus will be relatively "bank friendly" in its construction such that the overall drawings can be restricted. Similarly, if there is a more general deterioration of the sector as a whole, there will be the capability to restrict drawings across the entire portfolio (by reducing the advance percentage) and this will essentially be at the Bank's discretion.

At the outset, the following maxima in terms of concentration limits for each Bakkavör customer will apply:

Tesco plc	£ 66,000,000
ASDA Group Limited	£ 32,000,000
J Sainsbury plc	£ 32,000,000
Marks and Spencer Group plc	£ 25,000,000
Wm Morrison Supermarkets plc	£ 10,000,000
Waitrose Limited	£ 16,000,000
Co-operative Group Limited	£ 7,000,000
Total	**£188,000,000**

Pricing

We are proposing a fee at 0.8%, margin of 2% and non-utilisation fee of 0.75% against 0.5%, 1.8% and 0.4% quoted by Rabobank for their 5 year facility. Our facility is seen as a bridger to allow them time to put the new arrangements in place with Rabobank in the event that bank are unable to complete before the 30th September deadline. Clearly, the new facility is an attractive option when compared to going back to the existing RCF banks for a relaxation of covenants as the current margin on the RCF line is 0.95% (having been increased on a ratchet from 0.75% when leverage exceeded 3.5:1). We would anticipate that the RCF banks would materially increase pricing if asked to vary the terms of the current agreement.

The RAROCE for the pricing proposed for our facility is circa 27%

Due Diligence

- Clifford Chance has been appointed to act for the lending bank. Initially, they will provide commentary on the proposed structure and will then advise on the documentation.
- Rabobank are already in direct discussions with Clifford Chance in relation to documentation and Clifford Chance have issued a letter commenting on the first draft documents.
- Deloitte have been instructed to undertake limited due diligence at various sites. This means that they will review the systems and procedures surrounding the invoicing process and also reconcile the debtor books. We have the scope and it is rather limited but as there is no recourse to the Group we would expect this.

3. Company Overview

Bakkavör Group hf. is the leading supplier of chilled ready meals and prepared salads within the UK. It is also developing internationally through a series of acquisitions across Europe, the Far East and USA. Various group companies provide fresh prepared foods to the main European retailers including Tesco, J Sainsbury, Asda, Morrison's, M&S & Carrefour. Bakkavör is listed on the OMX Nordic Exchange in Iceland with a market capitalisation of c. £340m.

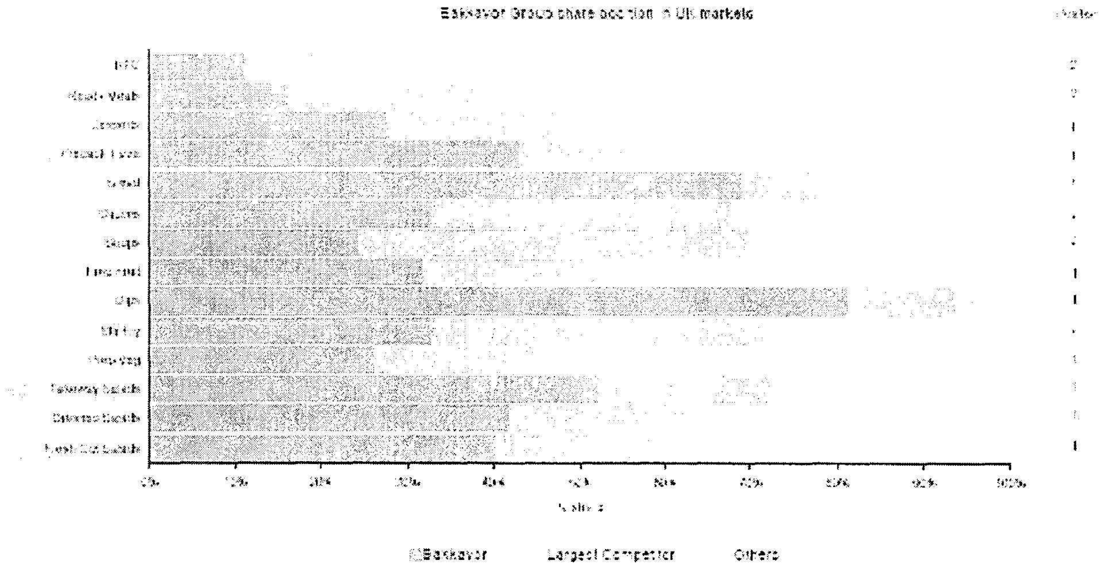
Bakkavör makes over 6,000 products in 18 product categories, which are developed and sold predominately under its customers' own brands.

Products

The fresh prepared foods can be spilt roughly into two categories: hot eating and cold-eating. In addition, Bakkavör also supply fresh produce. Examples of the three categories are shown in the table below:

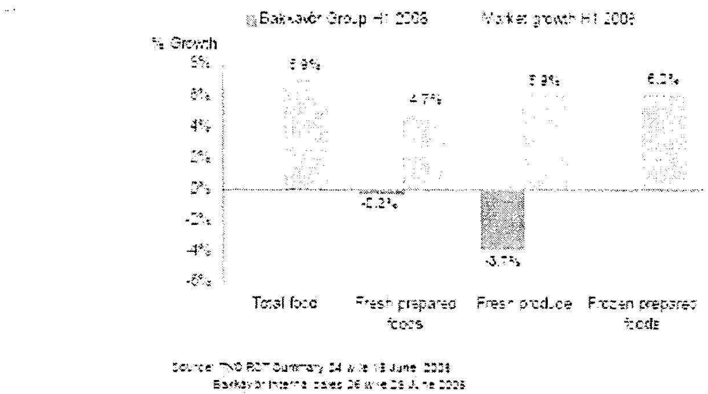
Cold Eating	Hot Eating	Fresh Produce
Leafy Salads	Ready meals	Trio leaf lettuce
Convenience Salads	Ready-to-cook meals	Whole cucumbers
Dips	Fresh pizza	Piccolo tomatoes
Desserts	Fresh pasta	Sweet potatoes
Prepared Fruit	Soups	Butternut squash
Wraps	Stir fries	Blood oranges
Salad dressings	Prepared vegetables	Cantaloupe melons

Bakkavör Group's leading position in the UK market is illustrated below:



Fresh prepared foods (80% of UK turnover)

Bakkavör Group's growth target for its UK fresh prepared foods business is to achieve sales growth above market growth. In 2007 they achieved this objective with sales up 8% against 4.4% market growth. However, as can be seen from the table below this was not achieved in the first half of 2008. The Group's fresh prepared food sales declined by 0.2% compared to 4.7% market growth. The company have attributed this to the strategic withdrawal from a proportion of its ready meals business and subsequent restructuring activity.

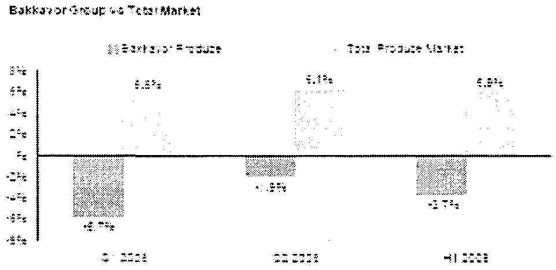


However, if ready meals are excluded from Bakkavör Group's H1 sales and the total fresh prepared food market, Group sales increased by 5.2% compared with 6.3% market growth due to a strong performance in categories such as desserts (+7%), prepared fruit (+39%), pizza (+8%), soups (+19%) and wraps (+13%).

The Group have undertaken various steps to improve performance in ready meals and expects this to result in stronger H208 and FY09 results.

Fresh produce (20% of UK turnover)

Bakkavör Group also targets sales growth above market growth in fresh produce. In 2007, the Group's like-for-like fresh produce sales grew by 1.3% compared to 4.9% sector growth, owing to price pressures in the market which had a negative impact on manufacturing margins. The graph below shows fresh produce sales declined by 3.7% in H108 compared with a 5.9% sector growth in the first half of the year. The main reason for this is the Group's withdrawal from unprofitable product lines.



Sales margins remained under pressure from higher raw material costs due to the effect of the strong euro against the pound and shortages in supply from some of the key growing regions which resulted in the business sourcing higher-priced alternatives in the short term.

Geography

Sales are split across the UK (88%), Continental Europe (10%) and Rest of the World (2%).

While H108 like-for-like UK sales decreased by 0.5%, the like-for-like increase in Continental Europe was 7.4% on constant currency basis. This is despite the same inflationary pressures that the UK business faces as well as poorer raw material yields from local growing regions. In the first half of the year Bakkavör continued to strengthen their position in Continental Europe with acquisitions in Italy, France and the Czech Republic.

The Rest of the World operations are concentrated in China, Hong Kong and North America.

Customers

Bakkavör's top 8 customers comprise c.90% of the UK debtor book with Tesco accounting for 35%. Payment terms range from 30-45 days. Details of the customers are below:

<u>Tesco (35% of Bakkavör sales)</u>

Tesco plc is a British-based international grocery and general merchandising retail chain. It is the largest British retailer by both global sales and domestic market share (31.5%). This year, Tesco became the world's fourth largest retailer with operations in 12 international markets and employing over 440,000 people.
Originally specialising in food and drink, it has diversified into areas such as clothing, consumer electronics, consumer financial services, retailing and renting DVDs, CDs, music downloads, Internet service, consumer telecoms, consumer health insurance, consumer dental plans and software.

The latest broker note by Citi rates Tesco as a Buy in light of a growing international business, a large opening programme and a higher proportion of non-food items such as financial services and clothing.

£m Y/E Feb	**2008**	**2007**	**% change**
Turnover	47,298	42,641	11%
PBT	2,803	2,653	6%
Annual Operating Lease Payments	551	379	45%
Net Debt	6,268	4,658	35%
Shareholder Funds	11,902	10,571	13%

Group sales and group profit before tax (before exceptionals) rose 11% and 6% respectively in 2008. Tesco plc is A rated by Fitch.

<u>J Sainsbury (17% of Bakkavör sales)</u>

J Sainsbury plc is the parent company of Sainsbury's, the third largest chain of supermarkets in the United Kingdom. The group also has interests in property and banking.

Sainsbury's market share as of January 2008 was at 15.9%, making it the third largest of the "Big Four" supermarkets, behind Tesco and ASDA. It consists of a chain of 490 supermarkets and 298 convenience stores, and Sainsbury's Bank.

The latest Lehman Brothers broker note rates J Sainsbury plc as a Sell due to it remaining "plugged" into the slowing UK grocery market with little opportunities for large growth.

£m Y/E Mar	2007	2006	% change
Turnover	17,151	16,061	7%
PBT	477	104	359%
Annual Operating Lease Payments	291	283	3%
Net Debt	1,380	1,415	-2%
Shareholder Funds	4,349	3,965	10%

J Sainsbury continued its recovery in 2008 with PBT rising from £104m to £477m. J Sainsbury plc is BBB rated by Fitch.

Asda (15% of Bakkavör sales)

ASDA is a chain of supermarkets in the United Kingdom offering food, clothing and general merchandise products. It became a subsidiary of the American retail giant Wal-Mart in 1999, and is currently the second largest chain in the UK (16.8% market share) after Tesco, having overtaken Sainsbury's in 2003.

Asda is Wal-Mart's largest non-U.S. subsidiary, accounting for almost half of the company's international sales. As of January 2006, there were 21 Asda/Wal-Mart Supercentres, 243 Asda superstores, 37 Asda supermarkets (including town centres), 5 Asda Living stores, 10 George clothing stores and 24 depots (distribution centres) - 340 in total. Asda has 150,000 employees, who it refers to as "colleagues" (90,000 part-time, 60,000 full-time). The company is also engaged in property development through its subsidiary company, Gazeley Properties Limited.

The latest Merrill Lynch broker note on Wal-Mart rates it as a Buy as the company continues to improve merchandising, marketing and making store improvements.

£m Y/E Dec	2006	2005	% change
Turnover	15,759	14,865	6%
PBT	593	572	4%
Annual Operating Lease Payments	12	11	14%
Net Debt	147	250	-41%
Shareholder Funds	3,888	3,670	6%

2007 figures have not yet been submitted by Asda and as they are a wholly owned division of Wal-Mart they are not required to declare quarterly or half yearly updates. Wal- Mart Stores Inc is AA rated by Fitch.

Marks and Spencer (12% of Bakkavör sales)

Marks & Spencer Group plc is a British retailer, with 900 stores in more than 30 countries around the world, 622 domestic and 278 international. It is the largest clothing retailer in the United Kingdom, as well as being a food retailer, and as of 2008, the 43rd largest retailer in the world. Most of its domestic stores sell both clothing and food, and since the turn of the century it has started expanding into other ranges such as homewares and furniture.

The latest JP Morgan broker note on Marks and Spencer rates it as a Sell in light of the premium food offering being vulnerable in the tough macro environment and its overexposure to clothing in the UK market.

£m Y/E Mar	2008	2007	% change
Turnover	9,022	8,588	5%
PBT	1,129	937	21%
Annual Operating Lease Payments	18	11	69%
Net Debt	2,498	1,515	65%
Shareholder Funds	1,964	1,648	19%

2008 saw steady growth in turnover for the group and a 21% rise in PBT. Since then however, the Group has issued a profits warning in response to the consumer slowdown. Marks & Spencer is BBB+ rated by Fitch.

Waitrose (8% of Bakkavör sales)

Waitrose is the supermarket division of the John Lewis Partnership, with 192 branches. Like the partnership's department stores, Waitrose is targeted at the middle class market, emphasising quality food and customer service rather than low prices. Waitrose's main competitors in this market are Marks & Spencer and Sainsbury's. It currently has a 4% share of the food market, and additionally a 16% and 10% share of the organic food and wet fish markets respectively.

£m Y/E Jan	2008	2007	% change
Turnover	3,950	3,699	7%
PBT	120	88	37%
Annual Operating Lease Payments	44	40	11%
Net Debt	-43	-50	-13%
Shareholder Funds	654	572	14%

In recent years, the chain has seen a surge in expansion and profits, with a long term goal of having around 400 branches across the UK by 2017 and doubling revenue to £8bn.

Morrison's (5% of Bakkavör sales)

Wm Morrison Supermarkets PLC is the fourth largest chain of supermarkets in the United Kingdom. The company is usually referred to and is branded as Morrisons, and it is part of the FTSE 100 Index of companies. Morrisons' market share as of January 2008 was 11.4%, making it the smallest of the "Big Four" supermarkets, but far ahead of the fifth place Co-operative Group.

Founded in 1899 by William Morrison, Morrisons was for many years focused in the north of England. With the takeover of Safeway in 2004, the company expanded southwards, and now has a total of 375 superstores across the UK.

The Morrison family currently own around 15.5% of the company. In March 2008, Sir Ken Morrison retired as Chairman of the Group after 55 years there.

The latest JP Morgan broker note rates Morrisons as a Buy, mostly due to the perceived possibility that Morrison's may acquire some of Somerfield's assets in the shake-out from the Co-Op acquisition.

£m Y/E Feb	2008	2007	% change
Turnover	12,969	12,462	4%
PBT	612	248	147%
Annual Operating Lease Payments	-28	19	-247%
Net Debt	660	791	-17%
Shareholder Funds	4,378	3,927	11%

2008 was further progress for Morrisons with profit before tax rising from £69m to £612m. This was helped by store openings and a range expansion. Wm Morrison Supermarkets plc is BAA1 rated by Moody's.

Somerfield (2% of Bakkavör sales)

Somerfield is a chain of small to medium-sized supermarkets operating in the United Kingdom. Operating as Somerfield Stores Ltd, the Bristol-based company emerged from the former Gateway chain in the 1990s and also previously owned the now-defunct Kwik Save chain of discount food stores.

Somerfield is the sixth largest food retailer in the UK, following the sale of the Kwik Save unit and the closure or sale of unprofitable stores, with 977 stores (as of January 2007). Somerfield had a 3.8% share of the UK Grocery Market in 2007, down from 4.5% in 2006.

In July 2008, the Co-operative Group announced a deal to purchase Somerfield for £1.57 billion, creating the fifth largest supermarket chain in the UK. Once the sale process is completed, subject to approval from the MMC, the Somerfield brand will be phased out.

£m Y/E Apr	2007	2006	% change
Turnover	4,370	5,249	-17%
PBT	9	-133	107%
Annual Operating Lease Payments	3	3	-17%
Net Debt	872	-12	7134%
Shareholder Funds	961	899	7%

Somerfield moved into profit in 2007 with PBT of £9m, illustrating the very low profit margins it has had for a number of years.

Co-Op (1% of Bakkavör sales)

Co-operative Group Limited, trading as The Co-operative Group, is a United Kingdom consumers' co-operative, and the world's largest consumer-owned business, with 85,000 employees across all its businesses. Regional and local retail societies are corporate members of the Group.

In July 2008, the Group announced a deal to purchase the Somerfield chain of 900 supermarkets and convenience stores for £1.57 billion.

The food retail business is the largest division of the Group. Whilst market share has diminished from the peak in the 1950s when the co-operative sector accounted for around 30% of the grocery market, with around 4.4% today, the Society is still the fifth-largest food retailer in the UK. With the Co-op's acquisition of Somerfield, the Co-op would have an 8% market share.

It operates over 2,200 food stores of various sizes with the biggest geographical spread of any retailer. The stores are mainly in the convenience and medium sized supermarket sector, although some larger superstores remain in the estate.

	Co-op group		% change	Co-op Food		% change
£m Y/E Jan	2008	2007		2008	2007	
Turnover	9,075	7,895	15%	3,700	3,500	6%
PBT	150	328	-54%	100*	92*	8%
Annual Operating Lease Payments	78	68	15%			
Net Debt	490	233	110%			
Shareholder Funds	3,797	3,271	16%			

*Operating Profit, not PBT

The food business do not publish their own results but have announced Operating profit rose 8% in 2008 to £100m on sales of £3.7m.

Relationship with the supermarkets

Sales to the supermarkets tend to track the supermarket's relative size on the high street and this portfolio effect has resulted in Bakkavör being protected to a greater extent than competitors as it is not overly reliant on any one supermarket. The CFO of Bakkavör has said that the relationship with the supermarkets was in fact strengthening during these tougher economic conditions and that this was illustrated in quantifiable terms during the M&S supplier review, Project Genesis (a review project undertaken by M&S of all its suppliers). Bakkavör have come out of this in a better position than the one they entered the review in. The CFO said that this was the effect of Bakkavör working as a group rather than as a disparate set of business units during negotiations.

5. Industry

Global Food Trends

Consumer choice at a macro level continues to be influenced by four main factors: convenience, health, pleasure and, more recently, responsibility:

Convenience

- People are increasingly fitting eating and drinking around leisure and work activities, and this has given rise to more flexible eating patterns such as eating on-the-move and snacking throughout the day.
- Increased ownership of microwaves/ fridge freezers means people can store & cook food more easily.
- UK consumers spend less than 15 minutes preparing an evening meal on average every 2 days.
- Today's different lifestyle compared to a generation ago features bespoke meals and eating alone.
- Increase in the number of working women is one of the strongest factors influencing the convenience trend as they, traditionally the household planners, are under increasing time pressure.
- Market studies are forecasting that convenience retailing in the UK will grow by almost 24% in the next five years, against a wider market growth of 15%.

Health

- Major concern about worldwide obesity and obesity-related illnesses, such as diabetes, is a key influence behind the health trend.
- Awareness of healthy eating, contributing to rising consumption of fruit, vegetables and salads.
- Many fresh prepared foods are perceived to be intrinsically healthier than other foods and have benefited from the health trend- for example salads and fresh prepared fruit.

Pleasure

- Treating is becoming a more regular past time. Consumers are showing more appreciation for good food and as such are becoming increasingly sophisticated in their food choices. Conversely, there is also a trend for people to choose simple ingredients, often seeking out traditional meals from the past.
- As incomes rise and people become accustomed to having more spending power, so they are more likely to increase their spending on discretionary, luxury items. As quality goods and services become more available at increasingly affordable prices, high quality consumption is becoming part of everyday life.
- Fresh prepared foods often seen to be more premium then their frozen or ambient counterparts.

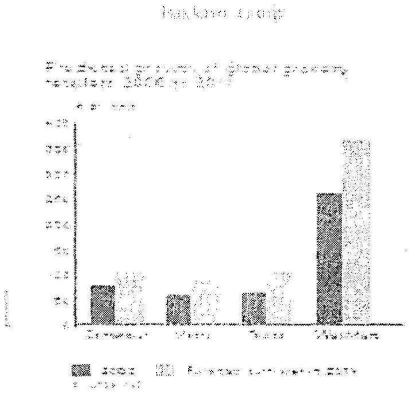
Responsibility

- Food integrity and purity, demand for local supply and corporate integrity are now demanded.
- Bakkavör worked on a number of initiatives in 2007, such as introducing new products in their organic soups and salads range and a new range of seasonal vegetables.

Global Grocery Retail Trends

In Western Europe and the US, the grocery retail market is relatively mature with established retailers in each main market and strong competition.

However, the consolidated turnover of the largest global retailers, Wal-Mart, Carrefour, Tesco and Metro, is expected to grow 8% each year until 2011, due to their increased focus on international expansion.



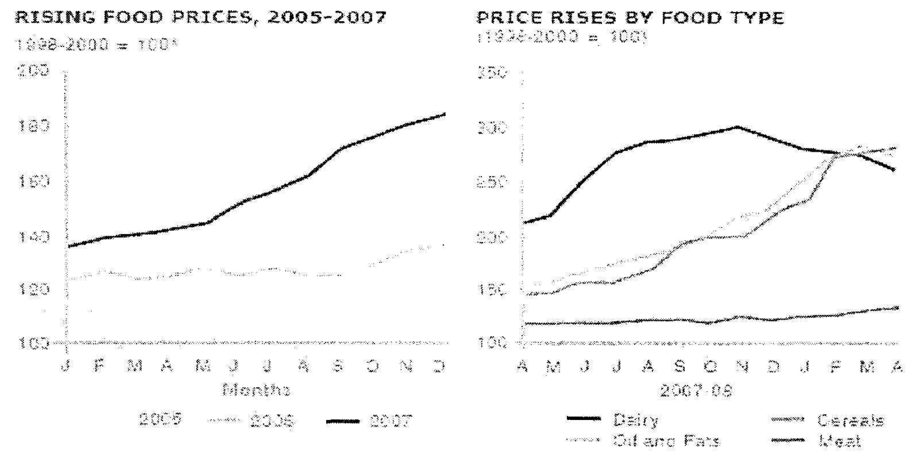
The two key geographical areas with the most attractive growth opportunities for grocery retail have been identified as Central and Eastern Europe (CEE) and Asia. Central Europe has seen a steep rise in foreign investment and strong demand which has led to a period of unprecedented growth and development. In Asia, China's grocery sector is seeing rapid year-on-year growth which exceeds the rate of GDP expansion.

Global Economic Trends

It is predicted that there will be a cautious global economic environment in the next 12 months. Pace of growth in world GDP slowed to 3.6% in 2007 and is forecast to fall to 3.3% in 2008 before picking up in 2009.

In the UK a downturn in consumer confidence means consumers are starting to tighten the purse strings and change their buying behaviour, shifting their expenditure from premium range to standard to budget ranges. In order to guard against the potential negative impact of changes like these, Bakkavör supplies across the range of prices and has a broad product portfolio.

Adverse weather, biofuels use and demand from developing countries have all contributed to recent high food inflation in comparison to previous years.



*Changes in price are indexed against the costs dating from 1998-2000 SOURCE: FAO

In addition, global demand for oil, gas and electricity is pushing up energy costs worldwide and causing an increase in operational costs for businesses as well as consumers. These are both having an effect on the prices Bakkavör Group charge to their customers and the costs they are incurring (discussed more in the Financials section).

In mitigation, Bakkavör argues that whatever the economic situation, people always need to eat and the established and strong mega-trends underpin the demand on their products. Although fresh prepared foods may be perceived as a luxury by some, for most people they are a lifestyle choice, and hence are not as affected by an economic downturn.

6. Management

The management team have considerable knowledge of the sector through many years experience. The key board members are:

Ágúst Gudmundsson, 44, *Chief Executive Officer* – Ágúst founded Bakkavör Group in 1986 and was Executive Chairman from then until May 2006. He has since been Chief Executive Officer. Ágúst is also on the board of Exista hf.

Richard Howes, *Chief Financial Officer* – Richard qualified as a Chartered Accountant before moving into Corporate Finance with Dresdner Kleinwort Benson. He joined Geest in 1999 as Corporate Finance Manager and worked in various roles within the Group before becoming Group Finance Director in May 2006. He has served as CFO since March 2008.

Lýdur Gudmundsson, 41, *Non-Exec Chairman* – Lýdur founded Bakkavör Group in 1986 and was CEO until May 2006. He has since moved to his principal occupation as Executive Chairman of Exista hf. Lýdur is also Vice Chairman of Kaupthing Bank hf.

7. Financials

Historical, Current & Projected Trading

The table below shows historic trading to H108 and forecasts to FY09:

Year (ended 31st December) £'m	**2007 Actual**	**2008 F'cast**	**2007H1 Actual**	**2008H1 Actual**	**% change 2007H1-2008H1**	**2009 F'cast**
Profit and loss account						
Turnover	1,471	1,588	723	803	11%	1,722
Cost of sales	(1,135)		(635)	(553)	15%	(1,321)
Exceptionals	-	(13)		(3)		
Operating profit	111	67	57	36	(36%)	118
Trading profit	57	11	34	11	(68%)	118
Mark-to-market on CFD	-	(45)		(46)	-	
Profit before tax	57	(34)	34	(35)	-	66.4
EBITDA (before exceptionals)	**150**	**123**	**76**	**59**	**(22%)**	**163**
Cashflow						
Cash generated from operations	126	71	80	33	(59%)	167
Cash generated from operating activities	93	50	61	16	(75%)	106
Balance sheet						
Non-Current Borrowings	767			741		767
Current Borrowings	27			32		51
Trade Receivables	125			131		
Net assets	278	202		222		299

Notes
The market-to-market cost of the CFD on Greencore is forecast to be unchanged since half year.
2009 figures are KS&F estimates from latest broker note and are not comparable with the 2008 Forecast, which has been provided by management.
Where figures are missing, it is because they have not been provided.

Turnover in H108 was 11% higher than in H107. However this rise in turnover was the passing on of higher costs, namely food inflation (c.10% p.a.) and energy inflation that affects utility and distribution costs (crude oil prices rose 45% in H108). These two combined to increase costs by 15% from H107 to H108, meaning that

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operating profit and EBITDA fell by 36% and 22% respectively. The restructuring costs (relating to the closure of the Group's pasta business in the UK) and losses on a financial investment in Greencore Group (described below) led to a PBT for the 6 months to June 08 of (£35m) compared to £34m for the 6 months to June 07.

The reduction in cash generated in H108 is a consequence of the reduced EBITDA, one-off insurance receipts in 2007 and a negative working capital movement in H1. This working capital change was mainly the result of one-off information systems issues at two sites that led to a £10m delay in cash inflow from customers.

Debt Analysis

Facility June 08	**Drawings (£m)**
Revolving Credit Facility (7 MLAs) (£700m limit)	£581
Currency Revolving Loan Facility (US$)	£12
Multi Currency Revolving Loan	£52
Finance lease payments	£96
Sub total	£741
Guarantees in favour of subs and associates	£97
Overdrafts	£32
Total Financial Indebtedness	£871
Cash in balance sheet	-£43
Total Net Debt	**£828**

As of the end June 2008 the £700m RCF that was put in place in April 2007 was drawn to £581k. Aggregating these drawings, overdrafts, guarantees and other facilities gives a total financial indebtedness of £871k and a net debt of £828k. We have been advised that the RCF drawings have, since the year end, reduced and that they are currently running at circa £400/£450mln.

In addition to the above, there are c. £230m of index linked bonds that sit at the topco level. The rate of interest is 6.70% per annum.

Existing Kaupthing exposure in Iceland comprises, we believe, loans, overdrafts plus guarantees in the aggregate sum of £23.5mln.

CFD Exposure

As can be seen, Bakkavör took a £45m loss on a CFD investment in H108. The investment is in Greencore Group, a convenience food producer. The loss stems from a fraud uncovered in June 08, in which Greencore uncovered a deliberate concealment of costs at its Scottish mineral water subsidiary Campsie Spring. This had led to a material misstatement of financial performance covering the financial years 2006, 2007 and the current financial year.

The board of Greencore said it believed that the financial implications of these issues would lead to a restatement reducing the group's operating profit by €4m for 2006 and by €8m for 2007. In addition, the estimated impact of this issue in 2008 will be a reduction of operating profit of €9m relative to current expectations.

Bakkavör's initial investment was based on their judgment of a good company, well positioned and well run. This has changed somewhat in the light of the fraud although Bakkavör will continue to hold their 10.9% position.

Kaupthing Capital Markets are the counterparty in relation to Bakkavör's CFD position in Greencore. Our loan to Bakkavör represents a gross exposure of £38.55mln and net credit equivalent of £0.433mln.

Covenants

The CFO stated that there was no breach of covenant in June 08 as a proportion of the debt of debt is held at the topco level and the covenants are at the Bakkavör London level resulting in a net debt figure of £525m and an LTM EBITDA of £145m. Therefore Leverage was 3.62x compared to a covenant of 3.75x. The Leverage covenant is 3.5x at September 08.

In the table above under the heading Debt Analysis, much of the debt is in the ultimate holding company and thus the Net Debt calculation largely comprises the RCF drawings minus the cash. At 30 June 2008 the Net Debt was £524.8mln and EBITDA £144.9mln giving rise to the 3.62x leverage number.

With EBITDA of £144.9 and Net Finance Charges of £32.9mln the interest cover was 4.4x well ahead of the 3.75x covenant level.

The CFD losses are, by definition, excluded from both covenant calculations.

Kaupthing hf Broker Comments

The latest Kaupthing hf broker note dated 6th August 2008 states that "tough times continue but fundamentals remain strong", resulting in a Buy recommendation.

8. Conclusion

Whilst the structure of this facility provides recourse to the two SPV Bakkavör finance companies, we are essentially taking a view on the major UK supermarket chains where only publicly information is available. However, given the market position of Bakkavör and the relative strength of the underlying debtors this proposal carries my recommendation.

Paul Mann / Andrew Gent
18th September2008

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Final Credit Memorandum

To: KSF Credit Committee

Approved by:	....
Signature:	....

From: Adam Wilton, Tom Welsh, Greg Smith
Date: 18th September 2008
Subject: **Project Rocket**

1. Executive Summary

Approval Request

Debt Summary	GBP million
Senior facility	51.4
Swap line	4.0
Total Kaupthing commitment	55.4

Overview

Project Rocket is the proposed financing of a portfolio of 17 freehold assets located throughout the UK (the "**Portfolio**") owned and operated by Bakkavor Holdings Ltd, the UK subsidiary of the Bakkavor Group hf. (Iceland) (the "**Group**") (altogether the "**Transaction**"). Proceeds to be used to support the Group working capital position.

Project Rocket will be implemented through an internal sale and leaseback, whereby the Portfolio will be sold to Bakkavor Estates Ltd ("**Propco**"), a newly created vehicle formed solely for the purpose of owning the Portfolio. Propco will grant 15 year leases to Bakkavor Foods Ltd ("**Opco**"), which will be fully repairing and insuring triple net leases, with an annual fixed inflator of 1.5% and a 5 yearly upward only mark-to-market adjustment. Bakkavor Holdings Ltd ("**Parent**") will serve as guarantor of the leases. Please note that there is a net asset value (NAV) covenant of £225 million on the Parent. See details of financial performance of the Group in Appendix I.

The Portfolio can be divided into 3 segments:

i. 10 of the properties will be let to Opco under a single master lease (the "**Master Lease Properties**")
ii. 5 of the properties will be let to Opco under individual leases (the "**Substitution Properties**")
iii. 2 of the properties will be held vacant for sale (the "**Disposal Portfolio**")

Note that only the Master Lease Properties and Substitution Properties (together the "**Investment Portfolio**") will be granted the 15 year leases; there is no rental income expected to be generated by the Disposal Portfolio.

Against the Portfolio, we are proposing to finance £51.4 million of Propco debt as a 5 year, 1 tranche term loan (the "**Facility**"). This equates to a 75% LTV loan given the investment market value of the assets is £68.6 million. We have agreed an arrangement fee with Bakkavor of 2.0%, equating to £1.03 million of fee income and through the life of the swap, we anticipate generating a further £0.4 million of income for KSF. The Facility will amortise according to a fixed amortisation schedule through the life of the loan and will also benefit from a full cash sweep. By the term of the loan, the LTV is forecast to be 52%.

The Parent currently has an existing revolving credit facility ("**RCF**") in place underwritten by 7 MLAs, of which we believe the current drawing to be £581 million. Bakkavor will undertake to Kaupthing (as a condition precedent) that this Transaction does not in any way breach the terms of the RCF.

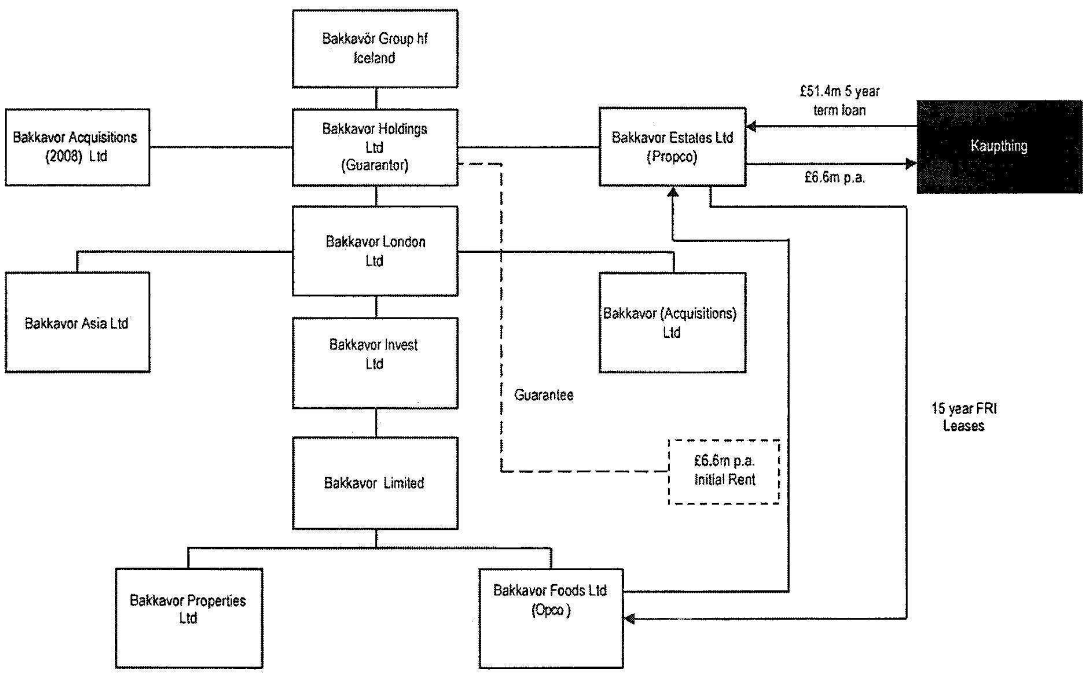
We are therefore seeking approval to underwrite the Facility and the swap, subject only to the completion of documentation and the satisfaction of CPs. We believe there are a number of reasons for Kaupthing to undertake this Transaction:

i. It will generate significant fee income for the bank, expected to be in the region of £1.4 million up front and £1.25 million per annum margin income.
ii. It further enhances our relationship with a key client, Bakkavor.
iii. Given the loan to value of the Facility, the covenant in place and structured Propco leases, we consider the overall risk of the Transaction to be low.

<u>Sources and Uses</u>

Sources and Uses	GBP million		GBP million	Term (yrs)	Initial LTV	LTV at maturity	Loan to VP at maturity	Margin	Min ICR	Min DSCR	Debt Yield at exit
Uses		**Sources**									
		Debt									
Financing of the Portfolio	51.4	Total Facility Amount	51.4	5	75.0%	51.5%	55.6%	2.50%	1.60x	1.25x	19.8%
Transaction costs:		Equity									
Arrangement Fee	1.0	Funding of Transaction Costs	1.3								
Third party / Advisor fees (estimated)	0.3										
Total transaction costs	1.3										
Total Uses	**52.7**	**Total Sources**	**52.7**								

2. Proposed Deal Structure



3. Transaction Strategy for Kaupthing

Although the Facility has been structured on terms representative of the current market, taking into account loan to value, the nature of the assets and quality of covenant etc., we do not anticipate there being a requirement to syndicate the Facility.

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With regards to the swap, we are proposing to put in place an 11 year interest rate hedge. This is because if the Facility was to run on beyond the 5 year term, assuming the cash sweep of income to amortise debt stays in place, the Facility would amortise fully over 11 years. Therefore the swap transaction hedges the term of the commitment and additionally all refinance risk in the structure. The hedge is portable to any bank who may step in to refinance the Facility.

Subjecting Propco to a hedge that is shorter dated introduces the risk of higher interest rates at the point of refinance. This has a double effect as it could be implied that the cashflows can support less debt and additionally property yields may also be higher (in a higher rate environment). There is an additional advantage to Propco of hedging for a longer term as the yield curve is currently inverted and fixed rates are lower as we fix for longer.

4. Property Overview

The Portfolio consists of 17 food processing facilities, most of which were constructed in the 1980s as purpose built factories. The Portfolio is pan-UK and consists of 16 freehold assets and one long leasehold asset (Bo'ness in Scotland) with a term of around 100 years unexpried on the lease and a small peppercorn rent in place.

The valuation of the assets (undertaken by Savills as part of the Transaction due diligence) and market rents are given below:

Unit Location	Classification	Tenure	S&L Gross Rent	Property Management Costs	Void Costs	Net Rent	Net Initial Yield	Purchaser's Costs	Investment Value	Vacant Possession Value
1 Spalding	Master Lease	FH	1,457,000	(7,037)		1,449,963	10.0%	5.76%	13,700,000	12,700,000
2 Bourne Spalding Rd	Master Lease	FH	600,000	(2,898)		597,102	9.4%	5.76%	6,000,000	6,000,000
3 Barton on Humber	Master Lease	FH	96,000	(464)		95,536	10.9%	5.76%	825,000	725,000
4 Bo'ness	Master Lease	LLH	280,000	(1,352)		278,648	9.9%	5.76%	2,650,000	2,150,000
5 Highbridge Bolton Close Isleport	Master Lease	FH	267,000	(1,290)		265,710	8.4%	5.76%	3,000,000	2,800,000
6 Sutton Bridge	Master Lease	FH	341,750	(1,651)		340,099	9.9%	5.76%	3,250,000	3,000,000
7 Newark Jessop Way	Master Lease	FH	650,000	(3,140)		646,861	9.0%	5.76%	6,800,000	6,300,000
8 Eythorne Dover	Master Lease	FH	450,000	(2,174)		447,827	9.0%	5.76%	4,700,000	4,700,000
9 Wigan	Master Lease	FH	500,000	(2,415)		497,585	9.0%	5.76%	5,200,000	3,700,000
10 Holbeach St Marks	Master Lease	FH	870,000	(4,202)		865,798	10.0%	5.76%	8,200,000	7,400,000
11 Biggleswade	Substitution	FH	504,000	(2,434)		501,566	8.5%	5.76%	5,575,000	5,375,000
12 Manir Firs Kirton	Substitution	FH	232,000	(1,121)		230,879	10.9%	5.76%	2,000,000	1,750,000
13 Bourne TB	Substitution	FH	152,950	(739)		152,211	9.9%	5.76%	1,450,000	1,375,000
14 Alresford	Substitution	FH	137,000	(662)		136,338	9.2%	5.76%	1,400,000	1,700,000
15 London	Substitution	FH	89,045	(430)		88,615	8.4%	5.76%	1,000,000	980,000
16 Birmingham	Disposal	FH			(80,000)				1,000,000	1,000,000
17 Normanby Foods Scunthorpe	Disposal	FH			(20,000)				1,800,000	1,800,000
Total			6,626,745	(32,007)	(100,000)	6,594,738	9.1%	5.76%	68,550,000	63,455,000

5. The Leases

The leases have been structured to be as close to institutional Propco leases as is reasonably achievable for the purposes of the Transaction. Key terms are

- All leases to be for a term of 15 years.
- Surety: the leases will be guaranteed by Parent.
- Lease surrenders permissible only with the written consent of the Agent.
- Sub-letting within the group permitted with the consent of the Agent.
- No assignment and limited sub-letting of the Master Lease Properties.
- Assignment and sub-letting of the Substitution Properties subject to alienation tests.
- Initial rent to be set at market levels (ERV) which will be inflated at 1.5% p.a. on an annual basis.
- Rent will be subject to a 5 yearly upward only mark-to-market adjustment.
- Security substitution: Opco and Propco and Parent will enter into a Substitution Agreement whereby Parent will have the right to substitute the Substitution Properties in line with pre-determined substitution mechanics. No other security substitution is permitted.
- Leases structured so as to be triple-net i.e. property costs (including, inter alia, maintenance, tax and insurance) to be borne by the tenant. The leases will also include dilapidation provisions and tenant responsibility in relation to any environmental liabilities.
- Alterations: Consent will be required for structural alterations to the Portfolio. Consent will not be required for non-structural alterations to the Portfolio provided that they do not prejudice the rental income streams and do not damage the reversionary investment value of the Portfolio.

Note that there are 5 sub-leases already in existence on the assets and Bakkavor is requesting that a limited amount of space in a further 2 assets (currently vacant) will be available for sub-letting under the terms of the Facility and lease. These sub-lets are currently being due diligenced by Kaupthing and our advisors.

6. The Property Manager

Savills will undertake the management of the Portfolio on behalf of Propco. We have insisted that Propco employs a property manager on an arm's length contract to ensure that the Transaction is in line with market. The property manager will enter into a duty of care agreement with Kaupthing and the total fee of £32k per annum (50bps of gross rent) represents a market rate for transactions of this nature.

7. Risk and Mitigants

Risk	**Mitigant**
Performance of Opco deteriorates	The Bakkavor Group is the leading supplier of chilled ready made meals in the UK and forecasts predict growth of 24% in the market for chilled ready made meals over the next 5 years. Key clients include Tesco, Marks and Spencer, Waitrose, Somerfield and Morrison's. In the event that the performance of the Opco deteriorates to the extent that rent to Propco is unpaid on one or more of the assets, we are able to call on the guarantee from Parent to Propco for the lost rental income in a given period. The structure of the Master Lease assets ensures that Opco cannot pick and chose the assets on which to pay rent. If rent is unpaid on one asset, this defaults all other assets and enables Kaupthing, as Propco lender, to enforce our security.
Refinancing Risk	We consider the risk that the Facility is not refinanced at the term of the loan to be low given the low nature of the LTV at underwriting (75%) and at the term of the loan (52%). This is especially the case given the fixed nature of the cash flows to Propco. Further, we gain comfort from the fact that the LTVPV at the term of the loan is only 56%.
Alienation Risks	Lease surrenders permissible only with the written consent of the Agent. No assignment and limited sub-letting of the Master Lease Properties. Assignment and sub-letting of the Substitution Properties subject to alienation tests to ensure that the covenant strength of any additional sub-tenant is at least as strong as the Bakkavor covenant.
Valuation	Savills have produced a prudent valuation, even given the market conditions, with the overall net initial yield on the Portfolio at 9.1%. This seems conservative given the nature of the covenant and structured and accreting long leases on the assets.
Other Due Diligence	Due to the short time frame in which we are working to execute the Transaction, we have been unable to satisfactorily complete all environmental, structural and floor measurement due diligence. As a CS, all of these exercises will be completed. If the reports disclose required works which (i) in aggregate would cost more than £1m or (ii) could reasonably be expected to have an impact on the value of the portfolio of £1m or more, then Propco must require Opco to carry out the works within a timescale to be agreed with the Bank acting reasonably. If the cost of the required works to any property is greater than the debt which has been allocated to that property, then Propco has the option of withdrawing the

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	property from the facility instead of requiring Opco to carry out the works. The allocated debt will have to be repaid by Opco (but will not attract any pre-payment penalty) and a maximum of 3 properties can be withdrawn in this way.

8. Due Diligence Overview

A comprehensive due diligence review has been conducted. Below we summarise the key outcomes of that review:

Report	Prepared by	Comment
Legal Due Diligence	Lovells & Eversheds	No material issues. Title review is ongoing.
Valuation Report	Savills	Valuation numbers have been received. Awaiting full final report.
Environmental Due Diligence	GroundSure (Desktop Reports)	Further investigations required on some of the assets. Phase I diligence a CS.
Structural Due Diligence	tbd	Phase I diligence a CS.
Insurance Due Diligence	tbd	Updated reinstatement cost valuations to be produced as a CS.

9. Timing and Next Steps

The timing on the Transaction is that funding must take place on or before 24th September. We are seeking approval to proceed with the transaction subject to the finalisation of documentation and the satisfaction of CPs.

Before funding there will be a final review of the valuation with credit control and CP satisfaction letter from Lovells.

Recommended.

Adam Wilton, Tom Welsh, Greg Smith

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Appendices

Appendix I – Bakkavor Overview

Introduction

The Bakkavor Group was founded, and is headquartered in, Reykjavik (Iceland) in 1986 as a food manufacturing company specialising in freshly prepared foods and produce. In the 22 years since its founding, the Bakkavor Group has grown to an operation spanning across ten countries in four continents: with 62 factories employing over 20,000 people, the Bakkavor Group generated 2007 sales of £1.47 billion, and an EBITDA of £149 million. The Bakkavor Group is listed on the OMX Nordic Exchange, and is a constituent of the OMX Iceland 15 Index with a market capitalisation of £340 million.

The Bakkavor Group is the leading supplier of chilled ready meals and salads in the UK – 90% of the Group's revenues are generated from the UK. The Bakkavor Group produces over 6,000 products which are subsequently marketed under their customers' respective brands.

Bakkavor Strategy

- Cost saving plans: The Bakkavor Group seeks to enhance efficiency, and streamline its operations, through a series of cost-cutting measures and a comprehensive restructuring programme. The first step of this programme was the closure of the Group's pasta business in the UK: associated costs stood at £3.1 million. The restructuring programme is to continue through 2008, with estimated associated costs in the region of £6 million. The benefits of cost cutting measures was evident in the EBITDA margins for 2Q08 which stood at 8.2% (once adjusted for the aforementioned £3.1 million restructuring costs), up from a historical low of 7% in 1Q08.

- Recent acquisition of Greencore units: The Bakkavor Group has acquired a 10.9% shareholding in Greencore, an Ireland based convenience foods producer with 2007 sales of €648.7 million. The Bakkavor Group, in the words of C.E.O. Agust Gudmundsson, views this shareholding as a 'strategic holding' although it is suspected that Bakkavor will at an appropriate time in the future seek to merge with, or acquire Greencore's convenience food segment and thus capitalise on the latter's market position. The Greencore investment has however not been without problem – in H108, the Bakkavor Group suffered a £45 million loss on their investment resulting from the exposure of fraud conducted by a Greencore subsidiary. Leading, thus, to an artificial and inaccurate depiction of the company's financial performance for the years 2006 and 2007 as a result of which the Bakkavor Group was misinformed in their assessment on which their investment was based. The Bakkavor Group intends however to maintain their investment in Greencore, believing this incident to have not significantly impacted their original assessment of the company.

Bakkavor Management Team

i. Lydur Gudmundsson

Lydur Gudmundsson, 41, is a founding member of the Bakkavor Group and has served as the Chairman of the Board of Directors since May 2006. He previously served as the C.E.O. of the Bakkavor Group between 1986 and May 2006. He is the Chairman of Exista, through which he owns – along with Agust Gudmundsson – a 39.6% shareholding in the Bakkavor Group. Lydur is additionally on the Board of Directors of KS&F.

ii. Agust Gudmundsson

Agust Gudmundsson, 44, is a founding member of the Bakkavor Group and has served as the C.E.O. since May 2006. He previously served as the Chairman of the Board of Directors of the Bakkavor Group between 1986 and May 2006. He is a member of the Board of Directors of Exista, through which he owns – along with Lydur Gudmundsson – a 39.6% shareholding the Bakkavor Group.

iii Richard Howes

Richard Howes is a qualified Chartered Accountant, and has served as the C.F.O. of the Bakkavor Group since March 2008. He previously worked in Corporate Finance with Dresdner Kleinwort Benson, before joining Geest in 1999.

Current Trading

The Bakkavor Group reported a loss of £23.4 million in 2Q08. Sales stood at £425.7 million (8% more than KS&F estimates of £394.2 million). Year to year sales growth in 2Q was 14% on account primarily of external growth over the course of the past twelve months; internal growth was 2.5%, as compared to 0.5% in 1Q. EBITDA for 2Q08 was, as expected, £32.2 million – as a percentage of revenues, the margin was 7.6%, although once adjusted for a one-off restructuring cost of £3.1 million, the EBITDA margin stands at 8.2% - up from a historical low of 7.0% in 1Q08. Disregarding the loss of £23.4 million (resulting from a loss on a Greencore investment), the Bakkavor Group achieved an after-tax profit of £7 million in 2Q08.

Kaupthing has revised its predictions for the Bakkavor Group: it is now projected that EBITDA will attain a sustainable level of 10% in 2010 (as compared to previous projections, and Bakkavor Group targets of 12-14%). Revenues are now expected to grow annually by 4.5%, as compared to previous projections of 8.5%. This revision is prompted in part by inflationary costs which are expected to intensify (particularly in areas such as utility and distribution costs thus negatively impacting profitability) and by the fact that the Bakkavor Group has recently commenced operating in places – such as the Far East – where operations are yet to yield a profitable return on investment.

Bakkavor Historic and Forecast Trading Financial Statements

Financial Year		2005	2006	2007	2008	2009	2010
Type		*actual*	*actual*	*actual*	*forecast*	*estimate*	*estimate*
Profit and Loss							
Total Sales	*[£ millions]*	722.06	1,219.19	1,470.97	1,588.00	1,772.70	1,800.20
Cost of Goods Sold	*[£ millions]*	(513.52)	(892.91)	(1,135.10)	*	(1,320.50)	(1,361.00)
Gross Profit	*[£ millions]*	208.54	326.28	335.87	*	452.20	439.20
Other Operating Income	*[£ millions]*	0.54	0.02	0.18	*	0.00	0.00
Share of (Loss) Profit of Associates	*[£ millions]*	0.07	0.10	(0.56)	*	0.00	0.00
Operating Expenses	*[£ millions]*	(123.08)	(178.64)	(186.47)	*	(289.00)	(259.80)
EBITDA	*[£ millions]*	86.08	147.76	149.02	123.00	163.00	179.40
Depreciation and Amortisation	*[£ millions]*	(19.06)	(33.41)	(39.03)	*	(45.00)	(42.50)
EBIT	*[£ millions]*	67.02	114.35	109.99	*	118.00	136.80
Rent to Propco	*[£ millions]*				(6.59)	(6.69)	(6.79)

Note:
** Figures not disclosed by Bakkavor*

Debt Analysis		2008
Revolving Credit Facility (7 MLAs)(£700m limit)	*[£ millions]*	581.00
Other Facilities	*[£ millions]*	289.00
Total Financial Indebtedness	*[£ millions]*	870.00
Cash on Balance Sheet	*[£ millions]*	(43.00)
Total Net Debt	*[£ millions]*	827.00

Ratio Analysis		2008	2009	2010
Rent Coverage[1]	*[ratio]*	16.79x	21.92x	23.76x
Adjusted Debt to EBITDAR	*[ratio]*	6.29x		

Note:
1. Assumes UK entity generates 90% of EBITDA

Global Food Trends

Consumers are increasingly influenced by:

Convenience: People are increasingly fitting food around work/leisure activities, giving rise to more flexible and relaxed eating patterns: on average, UK consumers spend less than 15 minutes preparing an evening meal every 2 days. Additionally, a change in the workplace demographic – with more women working than ever before – is a strong contributor towards the growth of convenience food.

Health: Global awareness and concern about obesity and obesity related illnesses has resulted in a health trend. Public perceptions of fresh prepared foods – particularly salads and fresh prepared fruit – are overwhelmingly positive as being inherently healthier than other foods.

Pleasure: As incomes rise, people are more likely to increase their spending on discretionary, 'luxury' items: fresh prepared foods are often perceived to be more of a 'luxury' product than their frozen counterparts.

Responsibility: There is increased consumer awareness of the benefits of locally supplied foods, and of the benefits of organic produce. Bakkavor responded to this by working on a number of initiatives in 2007 such as introducing new products in their organic soups and salads range, and a new range of seasonal vegetables.

Overview of Bakkavor's Key Customers

- Tesco

The largest British retailer – both globally and domestically – with a 31.5% domestic market share. Tesco is the world's fourth largest retailer with operations in 12 countries and employs over 440, 000 people. Tesco accounts for 35% of Bakkavor sales.

- J Sainsbury

Sainsbury's is the third largest chain of supermarkets in the UK. With 490 supermarkets, and 298 convenience stores, Sainsbury's has a 15.9% market share and accounts for 17% of Bakkavor sales.

- Marks and Spencer

Marks and Spencer operates 900 stores in over 30 countries. With 622 stores in the UK, Marks and Spencer accounts for 12% of Bakkavor sales.

- Waitrose

Waitrose operates 192 stores across the UK, and has a market share of 4%. Waitrose accounts for 8% of Bakkavor sales.

- Morrison's

Morrison's is the fourth largest chain of supermarkets in the UK. Morrison's operates 375 stores across the UK, and has a market share of 11.4%. Morrison's accounts for 5% of Bakkavor sales.

- Somerfield

Somerfield is the sixth largest food retailer in the UK with a market share of 3.8%. Somerfield accounts for 2% of Bakkavor sales.

- Co-Op

The Co-operative Group operates a market share of 4.4%, and accounts for 1% of Bakkavor sales.

Appendix II – Overview of Bakkavor's Peer Group

Associated British Foods Plc

Associated British Foods is a diversified food, ingredients and retail group operating in 43 countries and employing over 85, 000 employees. In 2007, the group reported sales of £6.8 billion.

Booker Group Plc

The Booker Group is the UK's largest food wholesaler, serving over 400, 000 customers from 172 branches across the UK. Booker offers over 20, 000 branded and unbranded goods to its customers who include independent convenience stores, grocers, pubs and restaurants. Sales in 2007 stood at £3.08 billion.

Dairy Crest Centre

Dairy Crest Centre is the leading supplier of Dairy produce in the UK. Customers include leading supermarkets, and independent convenience stores. Dairy Crest Centre achieved 2007 sales of £1.38 billion.

Finsbury Food Group

The Finsbury Food Group specialises in the production of bakery products. Sales in 2007 stood at £82.76 million.

Northern Foods

Northern Foods has 21 operating sites across the UK and Ireland specialising in chilled, bakery and frozen food production. Customers of Northern Foods include leading supermarkets: representative of 76% of revenue which in 2007 stood at £862 million.

Premier Foods

Premier Foods is a leading manufacturer of convenience foods in the UK, supplying to leading supermarkets and independent convenience stores. Sales in 2007 stood at £2.556 billion.

Robert Wiseman Dairies

Robert Wiseman Dairies produces and delivers milk to its customers across the UK. Sales in 2007 stood at £605.3 million.

Tate & Lyle

Tate & Lyle is a leading manufacturer of renewable foods and industrial ingredients. Headquartered in the UK, Tate & Lyle operates over 50 production facilities across Europe, the Americas and South East Asia. Sales in 2007 stood at £3.42 billion.

Uniq

Uniq is a chilled convenience food group with operations in 12 countries across Europe. Sales in 2007 stood at £736.1 million.

Kerry Group

The Kerry Group is a global food ingredients producer with operations across Europe, the Americas, Australia and Asia. Employing over 22, 000 people, the Kerry Group generated 2007 sales of €4.79 billion.

Alfesca

Alfesca is an Icelandic producer of chilled, festive and convenience foods. Alfesca has 11 production facilities in France, Spain and the UK. Sales in 2007 stood at €616.9 million.

Greencore

Greencore is an Ireland based producer of convenience foods and ingredients. The Bakkavor Group has a 10.9% shareholding in Greencore. Sales in 2007 stood at €648.7 million.

Bakkavor Peer Group Multiples (August 2008)

	P/E 09	Ev / EBITDA 08	Ev / EBITDA 09	ROE 09	Price /Cash Flow 08	Price /Cash Flow 09
Associated Br. Foods	12.6 x	7.3	6.5	9.9%	8.8	8.2
Booker Group Plc	9.5 x	5.5	5.0	12.5%		
Dairy Crest Group	6.7 x	6.5	6.1	17.9%	5.8	5.3
Finsbury Food Group	3.3 x	4.2	3.8	13.7%	4.1	
Northern Foods	6.2 x	4.6	4.2	22.4%	3.6	3.4
Premier Foods	4.6 x	6.1	5.5	11.2%	4.3	3.8
Robert Wiseman Dairies	9.5 x	5.1	4.5	16.0%	4.8	4.4
Tate & Lyle	9.8 x	6.6	6.1	16.4%	6.5	5.8
Uniq	11.1 x	4.1	3.1	3.4%		
Kerry Group	11.6 x	8.4	7.7	16.3%	8.8	8.4
Alfesca	13.0 x	7.7	7.3	7.8%	7.8	7.5
Bakkavor Group	6.4 x	8.4	6.4	21.0%	13.3	4.5
Greencore	7.1 x	6.1	5.4	15.4%	7.8	4.8
TOTAL						
High	13.0 x	8.4	7.7	22.4%	13.3	8.4
Low	3.3 x	4.1	3.1	3.4%	3.6	3.4
Median	9.5 x	6.1	5.5	15.4%	6.5	5.1
Average	8.6 x	6.2	5.5	14.1%	6.9	5.6
Weighted average	***10.8 x***	***7.2***	**6.5**	**13.1%**	***7.7***	**6.9**
Bakkavör vs. Median	-33%	38%	15%	37%	105%	-11%
Bakkavör vs. Average	-25%	35%	16%	49%	94%	-20%
Bakkavör vs. Weighted a	**-41%**	**17%**	**-1%**	**60%**	**72%**	**-35%**

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Appendix III - Proposed Debt Terms and Economics

Total Facility Amount	The Total Facility Amount will be structured into 1 tranche and will be fully underwritten by Kaupthing. The Total Facility Amount is £51.4 million.
Term	5 years from the initial drawdown.
Margin	200bps per annum.
Prepayment/Cancellation fees	Prepayment fees shall apply for the first 3 years of the Facility equal to the following percentage of the prepaid amount: (a) Year 1: 1.5% (b) Year 2: 1.0% (c) Year 3: 0.5%
Upfront Fees	200bps = £1.03 million. Payable on first drawdown
Security	To the fullest extent possible under the laws of England, the Facility will be secured by: ➢ First fixed and floating charge (debenture) over, amongst other things, the assets of the Borrower including a first legal mortgage over the Portfolio and an assignment of all rental/sales income derived there from and over the rental/sales account. ➢ A first fixed charge over any rental deposits. ➢ A first fixed charge over the shares of the Borrower. ➢ An assignment of the benefit of the interest hedging agreements. ➢ An assignment over the insurances relating to the Portfolio together with confirmation that the Agent is co-insured. Cover is to include full reinstatement with 3 years loss of rent and all risks (for the avoidance of doubt, including terrorism insurance) and non vitiation wording to the satisfaction of the Agent. ➢ An assignment of the benefit of the interest in the Parent/Opco Tax Indemnity. ➢ An assignment of the interest of the Property Manager agreement. ➢ Subordination of any director/shareholder/intercompany or other third party loans, to be governed by an Intercreditor Agreement. ➢ An assignment of the benefit of the Opco/Parent indemnity in relation to the outcome of the Structural due diligence condition subsequent.
Financial Covenants	To include the following financial covenants: ➢ Minimum Facility debt service cover (being the ratio of quarterly net Portfolio rental income to Facility principal and interest payable). ➢ Maximum Facility LTV ratio (i.e. the balance outstanding under Facility to the latest market value (MV) of the Portfolio (Disposal Portfolio to be valued on a VPV basis)). ➢ Minimum Facility interest cover (being the ratio of quarterly net Portfolio rental income to Facility interest payable). ➢ Covenant on the Net Asset Value (NAV) of the Parent. Minimum NAV to be not less than £225 million.
Hedging	The Borrower will hedge the Total Facility Amount against interest rate risk on signing of the Facility Agreement for a period ending not earlier than the Facility Maturity Date.

	The hedging counterparty is to be Kaupthing. Each interest hedging instrument shall rank senior to the Facility.

Project Rocket Cash Flows and Coverage Ratios

Project Rocket **Annual cash flow** **GBP 000s**	Year Year end date	0 30-Sep-08	1 30-Sep-09	2 30-Sep-10	3 30-Sep-11	4 30-Sep-12	5 30-Sep-13
Income							
Gross rent			6,652	6,751	6,853	6,955	7,060
Irrecoverables							
Property Management Fee			(32)	(33)	(33)	(34)	(34)
Void Costs on Vacant Assets			(100)	(102)	(103)	(105)	(107)
Total Irrecoverable Costs			(133)	(134)	(137)	(139)	(141)
Irrecoverable Costs as % of gross rent			*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Net Rent			6,519	6,617	6,716	6,817	6,919
Interest and fees							
Senior interest			(3,962)	(3,753)	(3,518)	(3,266)	(2,967)
Total Interest and fees			(3,962)	(3,753)	(3,518)	(3,266)	(2,967)
Cash flow post interest and fees			2,557	2,864	3,198	3,551	3,952
Debt amortisation							
Senior amortisation			(1,131)	(1,542)	(1,851)	(2,180)	(2,571)
Senior amortisation (cash sweep)			(1,426)	(1,322)	(1,347)	(1,371)	(1,382)
Total amortisation			(2,557)	(2,864)	(3,198)	(3,551)	(3,952)
Net cash flow available for dividend			0	0	0	0	0
Debt Metrics							
Debt Balance							
Senior		51,413	48,856	45,992	42,794	39,243	35,291
Total debt		51,413	48,856	45,992	42,794	39,243	35,291
Investment Valuation	68,550						
Vacant Possession Valuation	63,455						
Valuation Ratios	*Maximum*						
LTV	*75.0%*	75.0%	71.3%	67.1%	62.4%	57.2%	51.5%
LTVPV	*81.0%*	81.0%	77.0%	72.5%	67.4%	61.8%	55.6%
Cash Coverage Ratios	*Minimum*						
ISC	*1.65*		1.65	1.76	1.91	2.09	2.33
DSC	*1.25*		1.[illegible]8	1.25	1.25	1.25	1.25

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KAUPTHING BANK

Loan application
Guðmundur Þór Gunnarsson 24th of September 2008

Completed by the credit committee:

Facility applied for will be established in Kaupthing bank Branch (nr.) 358

Customer — Epion, 100% owned by Mr. Alisher Ushmanov
Project Puukko

Definition

File/id no.	Rating/pledge excl.short term/pledge incl.short term
/	/ /

Sector — Holding company

Purpose — A facility to acquire up to 9.9% of shares in Sampo Group, which is an insurance company, code name Project Puukko.

Recommendation — An approval is sought to provide a loan facility to Epion/Alisher Ushmanov as outlined below:

	Currency	Amount	Loan type	Maturity	Comment
SPV1 loan	EUR	500m	Bullet	2011	
SPV2 loan	EUR	600m	Bullet	2011	To be refinanced by 3rd party
	Total	1.1 bn			

Margin/performance/ fixed interest — SPV1 Loan: EURIBOR + 1.5 % per annum
SPV2 Loan: EURIBOR + 2.5% per annum

An approval is also sought to build up to USD 1.2bln of stake (through CFDs) in the mining and metalurgical company Norilsk Nickel for Gallagher Holdings.

Latest recommendation — The customer is new to Kaupthing Bank hf., but has been trading CFD's through KSF Capital Markets, see exposure below.

CFD

	Currency	Amount	Loan type	Current Maturity /New
CFD Trading Accounts with KSF	mUSD	826,931[1]	CFD	Current

Group commitment — See appendix
Note that the above are CFD trading positions and do not reflect regulatory exposure.

[1] 9th of September 2008 New AU Exposure Spreadsheet.xls from KSF Capital Markets. See details in appendix.

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Background for application

Mr. Alisher Usmanov is a shareholder of Kaupthing with 1.48% shareholding. Both Kaupthing and Usmanov are interested in building a long standing business relationship.

SWOT-analysis

	Strengths	Weaknesses
Internal	- Borrowers are wealthy and successful businessmen - High class underlying assets in Coalco in real estate - Steady income stream from Metalloinvest and Coalco - Quality international human resources	- The purchase has no cash equity, all equity is financed through borrowings in SPV's

	Opportunities	Threats
External	- The Moscow commercial and private real estate market is in a boom - New opportunities in emerging markets	- International crisis decreasing Sampo share prices call for margin calls - Large scale property development may be hit with a depression and subsequently surplus supply of spaces at Coalco

Business/credit strategy

- The borrowers intend to purchase up to 9,9% shares in Sampo Group. In order to finance Project Puukko two SPV's will be established; SPV1 and SPV2. SPV1 is a subsidiary of Epion, which is directly owned by Mr. Alisher Usmanov. Estimated acquisition value is EUR 1 bn. Kaupthing Bank will lend EUR 500m into SPV1, of which EUR 400m will be used as an equity contribution into SPV2. The remaining EUR 100m will be drawn to meet possible margin calls. Security over 20% shareholding of Coalco Development Ltd and a corporate guarantee from the same company.
- The rest, EUR 600m and 60% of the purchasing price, will be arranged and underwritten by Kaupthing, lent into SPV2 and subsequently sold to other bank(s) or financial institution(s).

Conclusion

In favour of recommendation

- The beneficial owner of the borrowers' has a strong track record of successful business ventures in high yielding projects, i.e. metals and mining.
- The borrowers' financial position is strong with a steady income stream through metals & mining and their telecommunications company Megafon.
- The pledge in Coalco is based on a trustworthy base. Coalco has shown a sound strategy and execution in property development in Moscow and NY, USA. The management team is international and of a high caliber. The company has a track record of exceptional skills in managing the approval

process for starting construction work in order to continue rapidly, which is an important element in Russia.

- The project brings Kaupthing new business in new markets which might lead to other cooperation with the borrowers.
- The Russian boom is derived from the commodities boom but according to Coalco's management its effect has decreased through recent times as other industries are influencing the economic growth and therefore diversifying the risk.
- In the economic crisis, Sampo shares may be cheaper than before which leads to a higher yield/profit in the long run.

Against recommendation

- New and relatively unknown borrowers to Kaupthing. They are however well known in Russia.
- The share value in Sampo might decrease in value after purchase. NB. EUR 100m allowance for margin calls.
- The pledged company, Coalco, are high rollers in the Moscow property development and need to be able to foresee decreasing demand in commercial real estate to adjust to the market when it will slow down. According to DTZ, the market is projected to equalize in 2012. Also, the planning committee in Moscow is highly conservative on planning permissions which reduces the supply of office space being built by competitors. Kaupthing's qualitative estimate is that the management of Coalco is aware of this risk and will be able to meet the lesser demand.

Collateral

New:

SPV1 Loan

The loan will be guaranteed by 20% of shares in Coalco Development Ltd and with a corporate guarantee from the same company. Coalco is a privately owned company so there is not a known market price available. In 2007 the company announced they were planning an IPO but pulled out at the last minute and opted to postpone the IPO to the fall of 2008 when the markets would improve. As the markets have not improved, quite the contrary, the IPO has been postponed again. DTZ's assessment on Coalco's total assets is USD 10,7 bln so should they go to the market they might put a price (E/V) of around USD 8 bln. Coalco's management have indicated a value of USD 6-10bln If 20% of USD 8 bln is 1.6 bln the estimated worth of the collateral is USD 1.6 bln or EUR 1,123 bln.

SPV2 Loan

The SPV2 loan will be secured with the acquired shares in Puukko and the loan will initially be up to 60% of the underlying shares.

Other requirements

Margin call if LTV is 80%, requiring the Borrower to come up with funds that take the LTV down to 60% again.

Background Information

Coalco

Coalco is 100% owned by Mr. Vasiliy Anishimov, a business partner of Usmanov. Restructuring is under way that will lead to a 20-25% shareholding of Usmanov.

Established in 1994, COALCO is a global investor acting on the real estate market in Russia, the CIS, Europe and the USA. The company's international reach is furnished with its main offices in Zurich, Moscow and New York.

With a 10-year experience on the market, skill and industry knowledge, Coalco effectively manages the development process from site acquisition through construction, marketing and management. The result is a portfolio of properties representing extraordinary risk-adjusted returns on investments.

Moscow's demand for first class commercial real estate exceeds the supply and Coalco has mega projects underway to meet the demand. Coalco plans to finish in the fall of 2008 White Square, which is a first class office complex of 73,922 m^2. They have secured long term lease contracts with international corporations such as Deloitte, PWC, McKinsey and Microsoft. They have 12 other mega projects underway with completion dates from Q3 2008 to Q4 in 2012. In total, Coalco has under construction 1,240,394 m^2 in Russia.

Historically, Moscow's rent leases have been short term which has been profitable as the rental rate has increased rapidly. Rental rate is comparable with London's rent. However, the rental rate is projected to stabilize around 2012 so in the long run, a long term (7-10 years), more moderate (but still high yielding) rates strategy has been chosen by Coalco. Coalco's core business is however land and property development so they will sell off their finished properties if the right price is offered but there is no rush. So, they either have a steady income stream or a profitable one-time sale.

Coalco has profited immensely on getting in the property development market early on, acquiring valuable inner city lots at cheap prices and developing them.

Through many successful joint ventures, Coalco has been repaid on average 4-10x their initial costs.

Project financing has been through Russian and European syndicated banks

Coalco's assets valued by DTZ (global real estate advisers) at abut USD 10.7 bln (22nd April 2008), value in EUR 7.58 bln 11th of September 2008. Coalco's annual reports 2004-2006 have been published but 2007 is still not finalised.

Coalco Development Group

In US dollars

	2006	2005	2004
Total equity	88.793.851	32.697.002	30.014.769
Total assets	272.838.450	60.960.635	70.110.824
Equity ratio	**33%**	**54%**	**43%**
Debt-to-equity	**2,07**	**0,86**	**1,34**
Total debt	184.044.599	28.263.633	40.096.055
Debt ratio	**67%**	**46%**	**57%**
EBITDA			
Gross profit	129.467.413	18.874.071	0
Other operating income	1.626.077	267.811	176.791
Profit /losses in joint ventures	13.362	-573.682	-184.680
Selling, general and admin expenses	-10.518.193	-3.427.102	-573957
	120.588.659	**15.141.098**	**-581.846**
Debt/Ebitda	**1,53**	**1,87**	**-68,91**

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Note that the asset value of Coalco is highly underestimated. The balance sheet of the company does therefore not reflect the value of the company.

Note, further, that Coalco owns 17,000 hectares (170million m^2) of undeveloped land around Moscow's international airport, Domodedovo International Airport.

Mr. Alisher Usmanov

Alisher Burkhanovich Usmanov (born 9 September 1953, Namangan Province, Uzbek SSR, USSR) is a Russian billionaire of Uzbek origin. According to the 2007 edition of *Forbes* magazine, the oligarch is Russia's 18th richest man, with a fortune estimated at US$5.5 billion (£2.696bn), and the world's joint-142nd richest person. He has accrued his wealth from mining, lumber and investment. Usmanov is married and is a graduate of Moscow's elite state university. He is the majority shareholder of Metalloinvest (EBITDA07 of €1.9bln), a Russian industrial conglomerate, which he founded to manage Gazprom's metals interests. He is known in business circles as "the hard man of Russia". He spent six years in jail during the 1980s for crimes committed in the USSR. Usmanov received an 8 year labor camp sentence. He was freed early in 1986. He was rehabilitated by Uzbekistan's Supreme Court in July 2000. It ruled that the case had been "fabricated".

Usmanov is chairman of Gazprominvestholdings, the investment holding subsidiary of Russia's state-owned gas company Gazprom, where his role is to manage what Gazprom calls its "most difficult and sensitive financial transactions".

Usmanov is the sole owner of Cyprus-registered Gallagher Holdings, described as a global conglomerate with main investments in mining and steel industry, technology, oil and gas, media and pharmaceuticals. Since 2006, Usmanov has also acquired stakes in Australia-based mining companies, Medusa, Mt Gibson and Aztec Resources through Gallagher Holdings. He is also the largest shareholder in London-listed Nautilus Minerals, which is prospecting undersea gold and copper deposits off Papua New Guinea.

In August 2006, Usmanov began to invest in media. On the encouragement of the Russian government, he bought *Kommersant*, a newspaper formerly owned by Russian oligarch Boris Berezovsky who has fallen into disfavour with the Kremlin and is living in exile. The deal was finalised at US$200 million. Usmanov followed this with the US$25 million purchase of a 50% stake in Russian sports TV channel 7TV in November 2006 and bought 75% of Russian TV music channel MUZ-TV for US$300 in June 2007.

He has also recently purchased through Gallagher Holdings a interest in Australian Miner - Strike Resources, whom are currently working on a world class iron ore deposit in Peru.

In May 2008 Usmanov purchased a stake in the Russian mobile phone operator Megafon. According to Reuters, 8% were bought from Bermuda-registered IPOC. Ha did also acquire 58.9% of Telekominvest which controls 31.3% of Megafon.

Usmanov is a major shareholder in London's Arsenal Football Club. In February 2008, his Metalloinvest also became sponsor of Dinamo Moscow, the Russian capital's football team once funded by the Soviet secret service.

Norilsk Nikkel

Norilsk is is the world's leading producer of nickel and palladium, and one of the largest global producers of platinum and copper. In addition to this, the Group also produces a variety of by-products, such as cobalt, rhodium, silver, gold, iridium, ruthenium, selenium, tellurium and sulfur.

The company has a market cap of USD 26.4bln, turnover of USD 17.1bln and EBITDA of USD 8.4bln.

Below are financial figures from Bloomberg.

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	2007	2006	2005	2004
Revenue	17,119	11,550	7,169	7,033
EBITDA	8,368	7,888	3,912	3,528
%	48.88%	68.29%	54.57%	50.16%
Non-current assets	23,186	11,074	9,177	9,665
Current assets	12,510	5,205	5,553	3,967
Equity	21,821	13,136	11,397	10,643
Other LT liab	3,338	1,260	635	949
Long term liabilities	4,103	632	1,104	657
Short term liabilities	6,434	1,251	1,594	1,383
Cash flow from operating activitie	7,365	5,647	2,994	2,504
Investing activities	-12,784	378	-1,455	-2,028
Financing activities	7,257	-4,769	-1,942	68
Net increase in cash	1,838	1,256	-403	544
Intangible assets	1,728	315		
Cash	4,008	2,178		
Total interest bearing debt	8,076	790		
Debt with Kaupthing Bank				
RATIOS				
Equity Ratio	61%	81%	77%	78%
Current Ratio	1.94	4.16	3.48	2.87
Net Intr Bearing Debt / EBITDA	0.49	-0.18		
Market Cap	26,400			
EV / EBITDA	3.64			

Appendices

Exposure on Alisher Usmanov and related parties. CFD´s.
Prepared 9th of September 2008.

KAUPTHING

To:	Sigurður Einarsson, Hreiðar Már Sigurðsson, Steingrímur Kárason, Bjarki H. Diego, Guðmundur Þór Gunnarsson
From:	KSF Capital Markets
Subject	Exposure on Alisher Usmanov and related parties

Market value per location

Name		Taranis	Kanton	Gallagher	Total	Nos
Norilsk Nickel	MNOD LI	137.634		427.998	**565.632**	46.439.424
Norilsk Nickel	GMKN RU			47.437	**47.437**	375.000
Sberbank	SBER RU		219.240		**219.240**	108.000.000
Panmure Gordon	PMR LN		3.398		**3.398**	3.855.958
Gazprom	OGZD LI	3.200			**3.200**	100.000
Westminster Grp	WSG LN	565			**565**	570.370
Minster Pharma	MPM LN	275			**275**	800.000
Total Market Value		**141.674**	**222.638**	**475.435**	**839.747**	
Uncovered Exposure		**127.730**	**145.282**	**553.920**	**826.931**	

Equity	13.945	77.356	-78.485	**12.816**
Equity Ratio	9,84%	34,75%	-16,51%	**1,53%**
Free Equity	-41.765	-11.698	-173.436	**-226.899**

News coverage Postponed IPO
http://www.1rre.com/news/doc/3504

Websites http://www.coalco.com/
www.metinvest.com

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KAUPTHING

CREDIT APPLICATION

To:	BCC
Client name:	EXISTA hf.
From:	Halldór B. Lúðvígsson
Date:	21.09.2008
Subject:	Various Exista hf. and related parties' requests

CREDIT REQUEST, TRANSACTION AND TRANSACTION RATIONALE

1. Exista has a loan with Kaupthing Bank (8295) amounting to ISK 13.4 billion, ISK 6.8 billion with maturity on October 15th 2008 and the rest with maturity in October 2009. Exista has now requested that we extend the 6.8 billion which is due this October for two years, until 15th October 2010.

   The proposed margin is between 2.5% and 3.0% (current margin 2.5%) and proposed extension fee is between 0.5% and 1.0%.

   Exista's credit rating is BB (6).

2. Exista and Exista Trading currently have around ISK 250 billion in various hedging, mainly FX, agreements with the bank. Related to these arrangements an ISK 20 billion credit line to Exista hf. and an ISK 3 billion credit line to Exista Trading, with corporate guarantee from Exista hf. has been requested by the company. Both lines should be valid until 31 July 2009.

3. Bakkabræður Holding BV (BH) is the largest shareholder of Exista, holding close to 45% of the outstanding share capital. BH currently have an exposure with the bank amounting to around ISK 20 billion. The loan is related to its holding in Exista and is secured with 5.1 million shares in Exista, with current market value of around 33.5 million. Current margin on the loan is 1,65%. The loan has final maturity on 2 October 2008 and therefore BH have requested a one year extension on the loan.

   In May/June BH acquired additional 1.3 million shares in Exista from Kaupthing Bank, which Kaupthing Bank received as payment for its shares in Skipti, in relation to Exista's settlement of the take over bid of Skipti. BH has now requested that Kaupthing provide them with an additional loan amounting to ISK 13 billion loan to finance the acquisition. As additional security Kaupthing would pledge over 1.3 million shares in Exista, in total 6.4 million shares.

   It is proposed that we offer them a one year extension to current loan and that we offer them in addition ISK 13 billion new loan (plus costs), thereby increasing the exposure on BH to around ISK 33.5 billion. Current value of the 6.4 million Exista shares we have as collateral is around ISK 42 billion (share price 6.58), implying a LTV of around 80%.

   The proposed margin is 2,5%, with an extension/arrangement fee of 0,5% on the total amount and margin call at 1:1.

   BH is on the exception list with regards to credit rating.

Exista hf.

Industry Particular

Exista operates in the field of financial services and has a focus on insurance and asset finance.

Current Exposure

Outstanding exposure for EXISTA and related parties within Kaupthing hf. is around ISK 143.8 billion (see below). In addition to this outstanding exposure within Kaupthing in Luxembourg and UK are some ISK 27.6 billion, bringing the total exposure to ISK 171.3 billion. It should be noted that Kaupthing has approximately some ISK 13 billion of cash pledged against an BCA overdraft, reducing the effective exposure with an equal amount.

EXISTA hf.	Type	Exposure	Outstanding (m ISK)	Maturity
16.sep.08				
PARENT:				
Exista hf.	Loan 4271	4.120	4.120	15.12.2009
Exista hf.	Loan 5686	23.567	23.567	15.12.2010
Exista hf.	Loan 6860	34.708	34.708	10.01.2013
Exista hf.	Loan 8065	1.471	1.471	30.08.2010
Exista hf.	Loan 8295	13.240	13.240	17.08.2009
Exista hf.	Money Market	4.002	4.002	15.10.2008
Exista hf.	Derivat. CE	3.631	3.631	18.9.-30.9.2008
Exista hf.	Bonds	6.296	6.296	
Exista hf.	Equity	4.169	4.169	
Exista hf.	Bókhaldslykill	12.000	12.000	
Exista hf.	BCA	15.898	15.710	
Exista hf.	Visa limit	57	3	
Exista hf. total		**123.159**	**122.917**	
Exista Invest	Derivatives	**40**	**40**	
Bakkabraedur Holding BV	Loan 3994	**19.961**	**19.961**	02.10.2008
Ufsastaðir ehf.	Loan 3660	**130**	**130**	15.01.2012
Vátryggingafélag Íslands hf.	BCA	5	0	
Vátryggingafélag Íslands hf.	Visa limit	33	2	
Vátryggingafélag Íslands hf. total		**38**	**2**	
Lýsing hf.	BCA	300	0	
Lýsing hf.	Visa limit	2	0	
Lýsing hf. total		**302**	**0**	
Fiskifréttir ehf.	Loan 200191	19	19	15.05.2011
Fiskifréttir ehf.	Loan 200192	80	80	15.02.2013
Fiskifréttir ehf. total		**99**	**99**	
Framtíðarsýn hf.	BCA	**24**	**3**	
Exista Exposure Parent		**143.753**	**143.152**	
As of 31-8-2008:				
Exista Group in Luxembourg		15.725		
Exista Group in SF IOM		1.661		
Exista Group í KT S&F		10.190		
TOTAL EXPOSURE		**171.329**		

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Ownership

Bakkabraedur Holding B.V.	45.2%
Kista-fjárfestingarfélag ehf.	8.94%
Gift fjárfestingafélag ehf.	5.22%
Castel (Luxembourg) SARL	5.09%
Robert Tchenguiz	4.71%
Icebank hf.	2.47%
Others	28.37%

Management

Sigurður Valtýsson,
Erlendur Hjaltason

Board of Directors

Lydur Gudmundsson, Chairman
Agust Gudmundsson
Gudmundur Hauksson
Bogi Palsson
Sigurjon Runar Rafnsson
Robert Tchenguiz
Hildur Árnadóttir

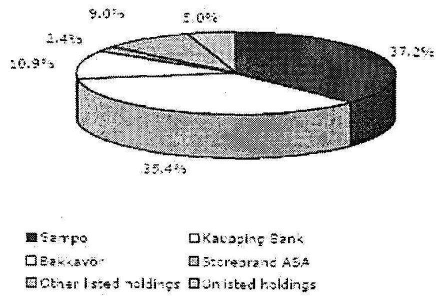
Mission and strategy

Exista's mission is to maximize shareholders' value through a diversified group of profitable businesses. To this end the group utilizes income from cash-generating operations and float to support highly selective investment activities, further increasing shareholders' value.

Exista´s main assets:

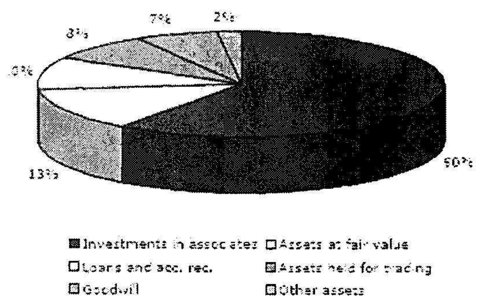
Exista is the largest shareholder in Sampo Group, Kaupthing Bank, Bakkavor Group and IcelandTelecom. VIS and Lýsing are 100% owned by Exista hf.

Exista's portfolio



Source: Kaupthing estimates and company data

Exista's assets compositions



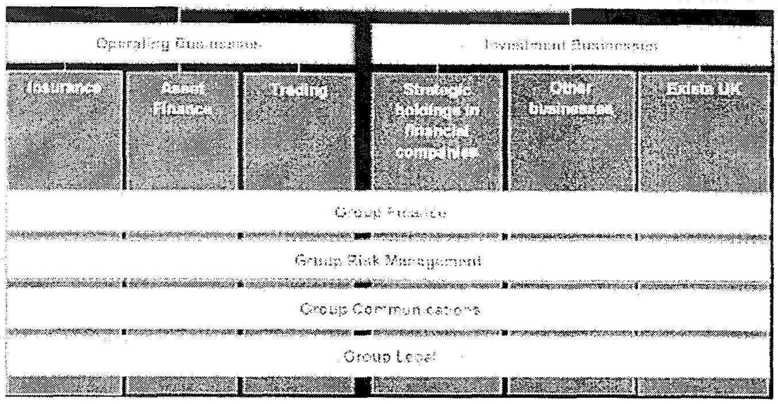
Source: Company data

Organisation Structure

Exista's business model is effectively based on utilising income from cash-generating businesses to support highly selective investment activities, made by specialist investment teams and monitored and serviced by centralised Finance, Risk Management, Legal Council and Communications.

Exista's operation is based on two foundations; the Operating Businesses and the Investment Businesses

KAUPTHING



Financial Performance

	Notes	Q2 1 April - 30 June 2008	Q2 1 April - 30 June 2007	H1 1 January - 30 June 2008	H1 1 January - 30 June 2007
Net gain (loss) on financial assets at fair value through profit or loss	5	(65.9)	35.3	(237.2)	73.5
Net gain on financial assets held for trading		20.6	36.4	79.1	147.3
Dividend	6	6.9	6.9	11.2	12.0
Interest revenue	7	28.0	19.3	56.5	37.8
Insurance premium	8	24.8	30.6	53.6	65.8
Share of profits of associates	17	67.8	158.3	132.4	615.2
Other revenues	9	5.4	3.3	10.0	6.6
Total revenues		89.6	290.2	105.7	958.2
Insurance claims	10	(21.2)	(24.5)	(50.2)	(51.0)
Operating expenses	11	(15.8)	(15.5)	(32.3)	(32.2)
Total expenses		(37.0)	(40.0)	(82.5)	(83.2)
Profit before financial expenses		52.5	250.2	23.4	875.0
Interest expense		(100.4)	(78.2)	(205.5)	(134.6)
Net foreign exchange gain		9.1	52.7	97.5	81.8
Total financial expenses		(91.3)	(25.5)	(108.0)	(52.8)
(Loss) profit before tax		(38.7)	224.7	(84.6)	822.1
Income tax		0.3	(3.3)	2.4	39.9
(Loss) profit for the period		(38.4)	221.4	(82.2)	862.1

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KAUPTHING

	Notes	30.6.2008	31.12.2007
Assets			
Financial assets at fair value through profit or loss	14	945.6	1,123.4
Financial assets held for trading	15	157.6	210.2
Loans and receivables		793.0	785.0
Goodwill and other intangible assets	16	341.4	469.4
Investments in associates	17	4,298.2	4,737.6
Reinsurance assets	18	8.5	10.1
Investment properties	19	50.5	70.1
Property and equipment	20	19.9	27.6
Cash and equivalents	21	305.4	567.6
Other assets		8.2	9.5
Total assets		6,924.7	8,010.5
Equity			
Share capital	22	143.5	120.6
Reserves		711.1	736.3
Retained earnings		1,429.2	1,511.3
Equity attributable to equity holders of the parent		2,283.9	2,368.1
Minority interest		0.3	0.6
Total equity		2,284.2	2,368.7
Liabilities			
Borrowings	23	4,143.6	5,123.7
Hybrid securities		260.9	250.0
Technical provision	24	180.5	221.5
Deferred income tax liability		8.3	18.8
Other liabilities		47.1	27.8
Total liabilities		4,640.5	5,641.8
Total equity and liabilities		6,924.7	8,010.5

Risk Evaluation

Liquidity risk: Exista's biggest challenge at the moment is securing liquidity as the company currently holds large stakes in four companies. It could be difficult at times for Exista to liquidate these stakes at desired times or secure new loans to repay/refinance current loans.

Refinance risk: As mentioned above, Exista is exposed to refinancing risk. If current market situation remains for an extended period repayments during 2009 can prove challenging.

Market risk: One of the main risk factor is market risk and a possible prolonged downturn and volatility in global financial markets. As such, a downturn could affect Exista's earnings and capital in the medium term, while at the same time opening opportunities for strategic investments.

Idiosyncratic risk / Financial sector risk: Further on, given the concentration in Exista's asset portfolio on the large financial stocks, the company is subject to both idiosyncratic risk as well as

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financial sector risk that cannot be ignored, even though Exista applies the equity method to both of these stakes.

Management risk: Another risk factor relates to Exista's management, since the company relies on its investment skills for the investment operation.

Operational risk: Exista has some operational risk due to its insurance and asset finance subsidiaries. The insurance risk mainly relates to underwriting risk or unpredictable developments, many of which are beyond the direct control of the company.

SUMMARY AND RECOMMENDATION

An approval is sought to accept this credit application as detailed above.

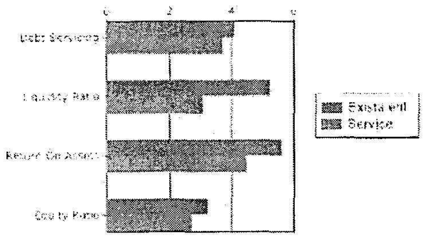
KAUPTHING

APPENDIX A
EXISTA'S CREDIT RATING

Client	Exista ehf	Status	Accepted	Analyst	RMJ	RID: 2908
ID	6106012350	Updated	20 Feb 2008 15:54:30	Account	Annual 31.12.2007	

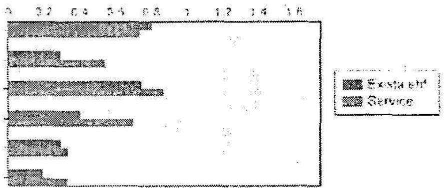
Quantitative

Ratio				Score	Weight		
Debt Servicing							
Debt / EBITDA	5 074 / 792	= 6.4090	g	4.1	20%	=	0.82
Liquidity Ratio							
Current Assets / Short Term Debts	1 691 / 518	= 3.2640	g	5.22	30%	=	1.567
Return on Assets							
Operating Results / Tot. Assets (1yr avg)	574 / 6 203	= 0.0930	g	5.61	5%	=	0.281
Equity Ratio							
Equity / Total Assets	2 369 / 8 010	= 0.2960	g	3.24	45%	=	1.459
					Total		4.127



Qualitative

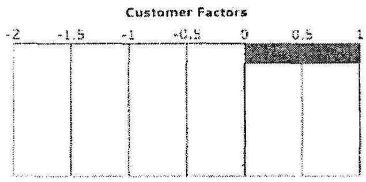
	Score	Weight		
Management and Strategy	4	20%	=	0.80
Sector Stability and Outlook	2	15%	=	0.30
Market Position	3	25%	=	0.75
Staff Cond., Production, Machinery & Assets Valuation	2	20%	=	0.40
Financial Risk and Control	3	10%	=	0.30
Refinancing	2	10%	=	0.20
		Total		2.75



Model Score:	3.5761	PD:	1.44%	Score:	6

Customer Factors

Listing of Company's Stock	1.00
Previous investments toward Kaupthing	0.00
Age of the company measured	0.00
Auditor's comment on the Statement	0.00
Total Shift	1.00



Comments

Entered	User	Action	Comment
12.02.2008	RMJ	Started	
20.02.2008	RMJ	Commented	[illegible]
20.02.2008	RMJ	Suggested : 06	[illegible]
20.02.2008	GAA	Accepted	..

Score Summary

					Score
Quantitative Score	4.1269	60%	2.47614		3
Qualitative Score	2.7500	40%	1.10000		4

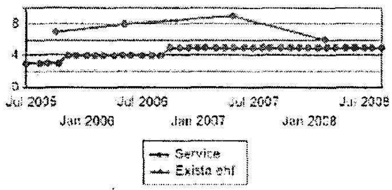
		PD	Score
Model Score	3,5761	1.44%	5
Total Shift	1.0000		
Shifted Score	4,5761	1.27%	6

Final Score:	BB (6)
PD:	1,27%

Sector:	Service
Average Final Score:	BB- (5)
Average PD:	3,53%

Rating History

Date	Rating	Reason
September 2005	7	
May 2006	6	
April 2007	9	
February 2008	6	



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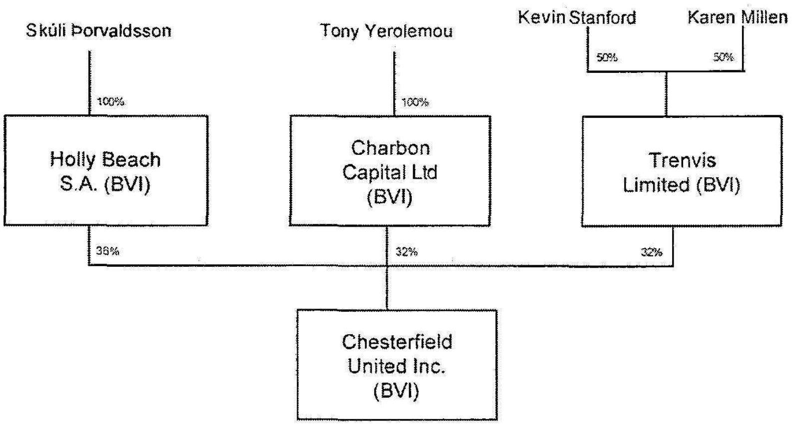
CREDIT APPLICATION

To: BCC
Client name: Kevin Stanford
From: Halldór B. Lúðvígsson
Date: 21.09.2008
Subject: Up to EUR 42.5 million loan to Trenvis Limited

CREDIT REQUEST, TRANSACTION AND TRANSACTION RATIONALE

Chesterfield is a SPV with the purpose of investing in a two times leveraged Credit Linked Note (CLN) issued by Deutsche Bank (DB) linked to Kaupthing Bank (KB).

There are three holding companies behind Chesterfield (see structure chart), including Trenvis Limited which owns 32% in Chesterfield. Kevin Stanford (KS) and Karen Millen are the beneficial owners of Trenvis Limited.



The CLN has a final maturity date on 20 September 2013. Note notional is EUR 125m with a CDS notional of EUR 250m. Note coupon is 3m EURIBOR + 1,122.4 bps. There are EUR 5 million in costs.

DB lends EUR 125m to Chesterfield and the remaining EUR 130m comes from the three holding companies.

Trenvis Limited would like to borrow up to EUR 42.5 million which is their equity contribution in this transaction plus arrangement fee and transaction costs.

It is proposed that we offer this to them as a bullet loan with maturity on 20 September 2013, with a margin of 1.5% and arrangement fee of 1.45%. As security we will pledge the share capital in Trenvis Limited as well as the shares Trenvis Limited owns in Chesterfield.

The company is on the exception list with regards to credit rating.

KAUPTHING

Kevin Stanford

Currently, outstanding exposure for entities related to KS is around ISK 34 billion. This exposure is mostly related to different trading activities KS carries out through the bank and is secured with the underlying securities (see below).

The new loan proposed in this memo will increase the total exposure to some ISK 40 billion.

Name	Kevin Stanford	Rona Financial	Others	Total	Share Price	Nos
Kaupthing Bank hf//	169.437.872	0	1.978.857	**171.416.729**	5,48	31273000
Baugur Group hf (Acquired) //	43.072.018	0	0	**43.072.018**	0,43	101108396
Mulberry Group plc //	25.196.765	86.375	0	**25.283.140**	1,73	14635720
All Saints Retail Ltd//	23.536.413	0	0	**23.536.413**	2477,52	9500
Highland Group Holdings Ltd (Private Company)//	22.614.486	0	0	**22.614.486**	1,26	18000000
Kirkland Lake Gold Inc //	16.435.173	637.937	0	**17.073.111**	3,22	5335000
BYR Sparisjodur//	7.221.417	6.828.318	0	**14.049.735**	0,02	616105371
Booker Group PLC //	12.566.767	0	0	**12.566.767**	0,34	37046363
Fusion Real Estate Investment (Private Company)//	6.424.458	0	0	**6.424.458**	9378,77	685
Belvedere Resources Ltd//	4.102.768	2.119.504	0	**6.222.271**	0,45	13975500
Mezzanine Group PLC (Delisted) //	3.769.081	0	0	**3.769.081**	125,64	30000
The Public House Collection Limited//	2.047.867	0	0	**2.047.867**	1,26	1630000
Ghost Holding Preferred Ltd//	1.884.540	0	0	**1.884.540**	1,26	1500000
Ghost Holding Ltd (Private Company)//	1.875.165	0	0	**1.875.165**	113,65	16500
Borders & Southern Petroleum //	428.733	659.589	0	**1.088.322**	0,66	1650000
Storebrand ASA //	0	783.073	0	**783.073**	4,91	159500
Altius Minerals Corporation//	334.253	334.253	0	**668.505**	3,34	200000
LXB Developments (Orange) Limited - Pfd//	628.055	0	0	**628.055**	1,26	499900
Rambler Metals & Mining PLC//	244.676	237.462	0	**482.138**	0,24	2028334
OTTOMAN FUND LTD/THE	416.295	0	0	**416.295**	0,89	470000
RAMBLER METALS AND MINING PL	173.064	238.708	0	**411.772**	0,24	1725000
OXFORD BIOMEDICA PLC	387.650	0	0	**387.650**	0,12	3300000
Norseman Gold PLC//	260.098	100.038	0	**360.136**	0,15	2340000
Altair Financial Services International PLC//	326.654	0	0	**326.654**	8,17	40000
The Indian Film Company Limited//	298.386	0	0	**298.386**	0,60	500000
First Calgary Petroleums Ltd //	216.291	0	0	**216.291**	2,31	93800
Newfoundland & Labrador Refining Corporation //	215.455	0	0	**215.455**	2,15	100000
Suroco Energy Inc//	151.510	0	0	**151.510**	0,27	570000
GB Petroleum PLC (Private Company) //	125.636	0	0	**125.636**	0,06	2000000
Lewis Charles Sofia Property Fund//	86.866	0	0	**86.866**	0,56	156250
La Mancha Resources Inc//	80.699	0	0	**80.699**	0,16	506000
Golden Peaks Resources //	0	72.257	0	**72.257**	0,52	137640
Block Shield Corporation PLC //	57.290	0	0	**57.290**	0,36	160000
Tatonka Oil & Gas Inc//	43.091	0	0	**43.091**	0,04	1000000
Eden Energy Corp //	33.051	0	0	**33.051**	0,13	255667
Palandri Ltd (Delisted)//	31.440	0	0	**31.440**	0,04	715000
Creative Education Corporation PLC (Delisted)//	31.409	0	0	**31.409**	0,00	25000000
Uppspretta Icelandic Capital Venture SA//	30.217	0	0	**30.217**	0,10	291227
X-Cal Resources Ltd//	16.312	0	0	**16.312**	0,03	545507
Libertas Capital Group PLC //	10.836	0	0	**10.836**	0,14	75000
Clipper Ventures PLC //	7.303	0	0	**7.303**	0,10	75000
Brazilian Diamonds Limited //	6.467	0	0	**6.467**	0,02	294118
Mercator Gold PLC//	2.450	0	0	**2.450**	0,16	15000
Conival PLC//	1.979	0	0	**1.979**	0,00	700000
Energem Resources Inc//	1.621	0	0	**1.621**	0,05	30500
Exista hf//	0	0	1.127	**1.127**	0,05	22312
Royal Standard Minerals Inc//	581	0	0	**581**	0,08	7000
Catalyst Media Group PLC //	427	0	0	**427**	0,43	1000
LXB Developments (Orange) Limited//	94	0	0	**94**	0,01	7500
Total Assets	**344.833.680**	**12.097.514**	**1.979.984**	**358.911.178**		
Net Liabilities	**333.975.470**	**-52.881**	**1.981.309**	**335.903.898**		
Equity	**10.858.210**	**12.150.395**	**-1.325**	**23.007.279**		
Equity Ratio	**3,15%**	**100,44%**	**-0,07%**	**6,41%**		

SUMMARY AND RECOMMENDATION

An approval is sought to accept this credit application as detailed above.

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KAUPTHING BANK

Kjalar hf.
Þorgerður Arna Einarsdóttir, 24 September 2008.

Completed by the credit committee:

Facility applied for will be established in Kaupthing bank Branch (nr.) 358

Customer Kjalar hf.
Suðurlandsbraut 18
121 Reykjavík

Definition

ID no.	Rating
631291-1129	CCC+ (4) Unconfirmed

Sector Management activities of holding companies

Purpose

The request is threefold:

1. The company has requested a 500 m ISK short term loan. The tenure will be approximately one month.
2. New equity into Kjalar through Harlow Equities S.A. and Partridge Management Group S.A. New loan request in relation to this equity injection amounts to 190 m EUR.
3. Extend 200 m ISK revolver for Kjalar hf.

Group Commitment

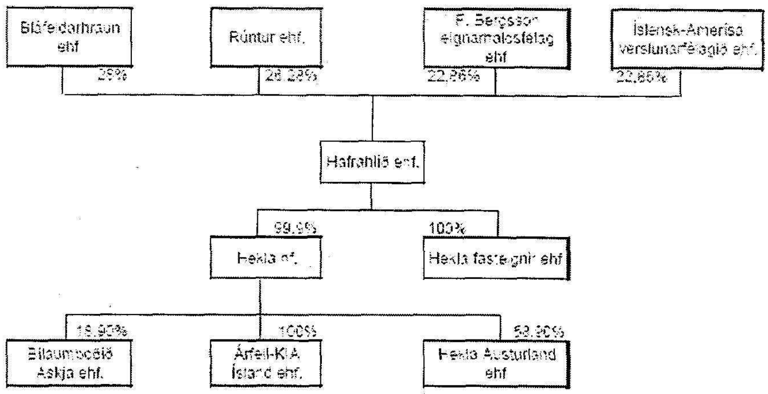
Exposure on Kjalar and related companies			
Company	**Loans**	**MTM (fx, swap, Aswap**	**Total Exposure**
Kjalar	64,511,915,893	-921,253,656	63,590,662,237
ICELAND SEAFOOD internat ehf.	8,057,689,480		8,057,689,480
Samskip/Samskip Holding	4,627,701,149		4,627,701,149
Ker	0		0
Jónar Transport	1,000,000		1,000,000
Total	**77,198,306,522**	**-921,253,656**	**76,277,052,866**

Background for request number 1.

1. New short term 500 m ISK facility

The 500 m ISK facility will be used as a new equity injection into Hafrahlíð ehf., which is the sole owner of Hekla hf.

Structure chart of Hafrahlíð:



Bláfeldarhraun ehf. is beneficially owned by Hjörleifur Þór Jakobsson. The 500 m ISK loan will be advanced to Kjalar who will lend the same amount to Bláfeldarhraun ehf. with an option of being converted into equity. If converted, Kjalar hf. will be the majority owner of Bláfeldarhraun ehf.

Bláfeldarhraun ehf. will use this loan facility as a new equity into Hafrahlíð and consequently the ownership structure will change considerably within Hafrahlíð ehf.

New ownership structure of Hafrahlíð ehf. after new equity injection:

Ownership structure of Hafrahlíð					
Current structure:			**Structure after equity injection:**		
Bláfeldarhraun ehf.	22,680	28.0%	Kaupþing	500,000	46.3%
Rúntur ehf.	21,287	26.3%	Bláfeldarhraun ehf.	22,680	**2.1%**
Íslensk-Ameríska	18,517	22.9%	Rúntur ehf.	21,287	2.0%
F Bergsson ehf.	18,517	22.9%	Íslansk-Ameríska	18,517	1.7%
	81,001	100.0%	F Bergsson ehf.	18,517	1.7%
			New equity from owners	500,000	**46.3%**
				1,081,001	100.0%

Like mentioned earlier this facility is short term, or approximately one month. Work is under way of obtaining new equity into Kjalar. This new equity is expected shortly and will be used partly to refinance this 500 m ISK Kaupthing facility. See further in request number 2.

Proposal:
Offer Kjalar hf. 500 m ISK loan facility for one month. In relation to this new loan facility Kaupthing will get pledge over 48.4% in Hafrahlíð ehf.
This new pledge will secure all of Kjalar's debt towards Kaupthing Bank.

Background for request number 2.

2. New equity into Kjalar through Harlow Equities S.A. and Partridge Management Group S.A.

Three steps have to be taken to obtain new equity in Kjalar:

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a)
Partridge Management Group S.A. is SPV with the sole purpose of investing in a two times leveraged Credit Linked Note (CLN) issued by Deautsche Bank (DB) and is linked to CDS with Kaupthing Bank (KB) as the underlying credit.

There is one holding company behind Partridge Management Group S.A., that is Harlow Equities S.A. and Ólafur Ólafsson is the beneficial owner of that company.

The CLN has a final maturity date in September/October 2013. Note notional is EUR 125 m with a CDS notional of EUR 250 m.
Note coupon is 3m EURIBOR + 1,380 bps.

DB lends EUR 125 m to Partridge Management Group S.A. and the remaining EUR 130 m comes from Harlow. That amounts to EUR 255 m since EUR 5 m is paid in fees to DB.

Harlow requests to borrow EUR 130 m (plus arrangement fee) which is their equity contribution in this transaction.

Proposal:
Offer Harlow Equities S.A. a bullet loan with maturity on September/October 2013, with a margin of 1.5% and 1.45% arrangement fee.
As a security Kaupthing Bank will pledge the share capital in Harlow as well as all the shares in Partridge.

b)
Partridge Management Group S.A. requests EUR 50 m which is the profit from the CLN during the 5 years period.

Proposal:
Offer them loan with 1.5% margin, 1.45% arrangement fee and regular repayments that are in sync with interest payments on the CLN. Final repayment will be in September/October 2013.
As security Kaupthing will pledge the CLN.

c)
Those EUR 50 m will be used as a new equity into Kjalar and, like mentioned earlier, will be used partly to refinance the 500 m ISK loan that was covered in request number 1.

Background for request number 3.

3. Extend current 200 m ISK overdraft

This overdraft has been within the company for several years. This revolver is not in steady use since its purpose is to bridge temporary cash shortage within the company.

Proposal:
Extend the 200 m ISK overdraft for 6 months.

Recent History

In the year 2007 Citi bank refinanced Kjalar's stake in Kaupthing Bank. This stake amounted to 9.88% which makes Kjalar the second largest shareholder of Kaupthing Bank.

On 13 March 2008 the value of Kaupthing shares decreased and the Icelandic krona devalued considerably. That triggered an event of default and Citi bank accelerated the loan.

Kaupthing refinanced most part of the Citi bank loan. Total loan amount within Kaupthing due to this refinance is in total approximately 404 m EUR while Glitnir refinanced a total amount of 120 m EUR, and some additional exposure has been assigned in risk participation agreements with other financial institutions.

The facilities are secured with a pledge over all shares in Kjalar Invest BV (holding shares in Alfesca hf.), Egla BV (holding shares in Kaupthing Bank hf.) as well as other subsidiaries of Kjalar hf. (unlisted companies), meaning that Kaupthing has in effect a security over the equity of Kjalar hf.

History

Kjalar was founded in 1991 by Ólafur Ólafsson to hold his shareholding in Samskip. In 2002, Ker was changed to an investment company and Kjalar became a substantial shareholder of Ker, building its stake from that time on. At the end of 2005 Kjalar had accumulated almost all shares in Ker, owning 97% of the company.

Ker participated in the privatisation of Búnaðarbanki Íslands through a shareholding in Egla. Egla has been the second largest shareholder of Kaupthing Bank since the merger of Kaupthing and Búnaðarbanki. In late 2005 Ker became the sole shareholder of Egla. In the Fall of 2006 Egla sold its shares in Kaupthing to Dutch subsidiary, Egla Invest BV. Egla Invest now holds 9.71% in Kaupthing and still holds the second largest stake.

The sale of Olíufélagið in 2006 triggered an event of default for all the debt of Ker. For that reason there was a need to refinance. This refinancing was finished in September 2006. Along with the refinancing, the structure of the group was changed and assets moved around. For example, Ker was split into two companies and the Alfesca and Kaupthing shares moved from Ker and Egla into Kjalar Invest BV and Egla Invest BV, a new holding companies with a domicile in the Netherlands.

The main assets of the Kjalar group today are 9.71% in Kaupthing Bank, 34.14% in Alfesca hf., 71.8% in Samskip hf. and 64% in Iceland Seafood International ehf. Further to that, Mr. Ólafur Ólafsson owns 2.36% in Alfesca through a SPV called Kjalar Investments SA.

In the spring of 2007, Kjalar acquired 33.03% stake in HB Grandi hf. from Kaupthing. Kaupthing financed that transaction and holds pledge in the HB Grandi hf. shares.

Risk Evaluation

The market conditions for a holding company like Kjalar, with its main assets in listed companies on ICEX as well a debt exposure in ISK and foreign currency is volatile. Decrease in share prices and weakening of the ISK have weakened the position of Kjalar.

It is also right to mention that since most of Kjalars loans are in EUR, the collateral value takes shifts both with the value of the Kaupthing shares as well as the exchange rate between EUR and ISK. There are though hedging arrangements in place.

Conclusion	<u>In favour of recommendation</u> • Support the second biggest shareholder in Kaupthing and a valued customer • Stong underlying assets despite challenging equity markets <u>Against recommendation</u> • Low cash flow • Low equity ratio

SWOT-analysis

	Strengths	Weaknesses
Internal	• Strong underlying assets with good potentials.	• Market risk on the Icelandic market. • Large weighing of Kaupthing Bank hf. shares in the portfolio. • Low equity ratio.

	Opportunities	Threats
External	• The underlying assets have great potential to increase in value.	• Further devaluation of Kaupthing Bank shares and the Icelandic krona. • Further volatility in equity markets

Ownership structure	Ólafur Ólafsson is the majority shareholder with about 97% shareholding.
Board of Directors	Kristinn Hallgrímsson, Chairman, Ásbjörn Gíslason and Ólafur Ólafsson.
Products	Investment company with main assets in Icelandic companies with international operations.
Appendix 1.	**Financial Statement 1/1 – 30/6 2008 – Kjalar.**

APPENDIX 1 – Kjalar:

	Skýr	1/1 - 30/6 2008	2007
Rekstrartekjur			
Gengisbreyting fjárfestingarverðbréfa		(8.354.535)	22.517.919
Innleystur gengistap (hagnaður)		2.917.536	(2.400)
Söluhagnaður tap og niðurfærsla eigna		(3.534.962)	234.583
Uppgjör veltubók		(370.101)	17.715
Leigutekjur og aðrar tekjur		587.193	252.152
Söluhagnaður rekstrarfjármuna		153.555	0
Arður		1.534.839	1.106.293
Vaxtatekjur		299.876	200.676
		(6.766.599)	24.326.938
Rekstrargjöld			
Vaxtagjöld		(5.765.253)	(3.452.875)
Gengismunur peningalegra eigna og skulda		(14.358.254)	3.106.105
Endurmat eigna		3.709.112	(561.956)
Laun og annar rekstrarkostnaður		(271.617)	(274.585)
Afskriftir fastafjármuna		(15.859)	(56.798)
		(16.701.872)	(1.240.107)
Hagnaður (tap) fyrir skatta		(23.468.470)	23.086.831
Tekjuskattur			
Reiknaður tekjuskattur		733.587	92.713
		733.587	92.713
Minnihluti		991	20.393
Hagnaður (tap)		(22.734.093)	23.199.937

Eignir

	Skýr	30.6.2008	31.12.2007
Verðbréf			
Eignarhlutar í félögum	4	93.410.430	101.675.401
Skuldabréf á tengd félög		2.252.613	252.261
Skuldabréf		2.371.895	814.587
		98.034.938	102.742.249
Kröfur			
Kröfur á tengd félög		302.024	29.438
Aðrar skammtímakröfur		1.668.168	1.708.371
		1.970.191	1.737.809
Aðrar eignir			
Bankainnistæður og sjóðir		2.316.743	2.261.297
Fasteignir og lóðir	3	16.212.035	12.381.366
Innanstokksmunir	3	716.812	629.065
		19.245.590	15.271.728
Eignir		119.250.720	119.751.786

Eigið fé og skuldir

	skýr	30.6.2008	31.12.2007
Eigið fé			
Hlutafé		4.891.737	4.906.607
Annað eigið fé		(595.130)	22.123.300
Eigið fé	5	4.296.607	27.029.907
Minnihluti - hlutdeild		7.628	8.619
Skuldbindingar			
Lífeyrisskuldbinding	6	160.209	172.800
Tekjuskattsskuldbinding	7	1.019.828	1.793.809
		1.180.037	1.966.609
Skuldir			
Skuldir við lánastofnanir	8	112.074.797	87.897.173
Skammtímalán		0	459.743
Aðrar skammtímaskuldir		1.691.650	2.389.735
		113.766.447	90.746.651
Skuldir og skuldbindingar		114.946.484	92.713.260
Eigið fé og skuldir		119.250.720	119.751.786

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KAUPTHING

CREDIT APPLICATION

To:	BCC
Client name:	Sheikh Mohammed Bin Khalifa Al-Thani
From:	Halldór B. Lúðvígsson
Date:	19.09.2008
Subject:	Approximately EUR 320m loans to three different companies where Sheikh Mohammed Bin Khalifa Al-Thani is the beneficial owner.

CREDIT REQUEST, TRANSACTION AND TRANSACTION RATIONALE

1. Brooks Trading Limited (Brooks) is a SPV with the purpose of investing in a two times leveraged Credit Linked Note (CLN) issued by Deutsche Bank (DB) linked to Kaupthing Bank (KB).

There is one holding company behind Brooks, Mink Trading Corp. (Mink). Sheikh Mohammed Bin Khalifa Al-Thani is the beneficial owner of Mink.

The CLN has a final maturity date in October 2013. Note notional is EUR 125m with a CDS notional of EUR 250m. Note coupon is 3m EURIBOR + around 1,300 bps. There are EUR 5 million in costs.

DB lends EUR 125m to Brooks and the remaining EUR 130m comes from Mink.

Mink would like to borrow up to EUR 130 million which is their equity contribution in this transaction plus arrangement fee and transaction costs. It is proposed that Kaupthing offers the facility to Mink as a bullet loan with maturity in October 2013, with a margin of 1.5% and arrangement fee of 1.45%. As security Kaupthing will pledge the share capital in Mink as well as all shares Mink holds in Brooks.

In addition Brooks would like to borrow USD 50 million which is parts of the profits from the transaction. It is proposed that Kaupthing offers this facility to Brooks with a margin of 1.50%, arrangement fee of 1.45% and quarterly repayments, in sync with interest payments on the CLN, with final repayment in October 2013. As security Kaupthing will pledge the CLN.

The companies are on the exception list with regard to credit rating.

2. Sheikh Mohammed Bin Khalifa Al-Thani is the beneficial owner of Serval Trading Group Corp (Serval), which is a BVI SPV, intending to invest in securities. The Sheikh has requested that Kaupthing lends up to EUR 150m into Serval.

It is proposed that Kaupthing offers this to Serval with a margin of 1.50%, first through a short term MM loan which will later be refinanced, probably through KSF. As security Kaupthing will get a personal guarantee from Sheikh Mohammed Bin Khalifa Al-Thani which has considerable wealth. The personal guarantee will then probably be replaced with collateral over assets held by the Sheikh at a latter stage.

The company is on the exception list with regard to credit rating.

Sheikh Mohammed Bin Khalifa Al-Thani

Sheikh Mohammed Bin Khalifa Al-Thani is a younger brother of the Emir of Qatar and has considerable net value. Currently the Sheikh has no exposure with us. We are however in the process of issuing a EUR 28 million loan to him, through a SPV called Q Iceland Holding ehf., to invest in Alfesca shares. That loan has a tenure of 4 years, a margin of 2,25% and arrangament fee of 1,0%. As collateral we have 850 million shares in Alfesca with current LTV of 60% and margin call at 80% LTV.

When all of these loans have been paid out, the total exposure of the Sheikh will be around EUR 350 million.

SUMMARY AND RECOMMENDATION

An approval is sought to accept this credit application as detailed above.

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KAUPTHING

CREDIT APPLICATION

To:	BCC
Client name:	Skipti hf.
From:	Halldór B. Lúðvígsson
Date:	18.09.2008
Subject:	Up to ISK 5 billion guarantee

CREDIT REQUEST, TRANSACTION AND TRANSACTION RATIONALE

Skipti on behalf of Síminn has requested that we issue up to ISK 5 billion bank guarantee, because of a tender for providing all Icelanders with high speed internet access.

Bids were delivered on September 4th and Síminn delivered three different bids

- One for apr. ISK 400 million using 3G technology
- One for apr. ISK 1 billion using current copper wire infrastructure
- One for apr. ISK 5 billion using fibre optic.

Síminn believes they are in a pole position to get this project. They feel it is quite unlikely the fibre optic alternative will be accepted. It is therefore more likely that either of the other two bids will be accepted.

If they are awarded this project the guarantee will be drawn upon during a 12 months period, as Síminn receives payments from the Icelandic Government, which is funding the projects. At final delivery the guarantee will be fully drawn/issued. The guarantee shall be valid for 7 years with an annual step down.

Possible payments because of this guarantee would have to be fully subordinated against the senior loan agreement to Skipti. It is proposed that we offer this guarantee to Skipti at a fee of 2,0%-3.0% p.a.

Skipti's credit rating is BB (6).

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Skipti hf.

Industry Particular

Skipti is owned by Exista, focusing on the ICT sector through different subsidiaries.

Current Exposure

Outstanding exposure for Skipti is around ISK 30.5 billion, with a total commitment amounting to ISK 40.2 billion (see below). It should be noted that most of the undrawn amounts will be drawn mostly in sync with repayments of the senior loan.

Skipti hf.	Type	Exposure	Outstanding (m ISK)	Maturity	Security	Comments
12.sep.08						
Skipti hf.	Loan 2747	3.763	3.763	21.12.2011	Custody Account 471724 and Comm real estate	
Skipti hf.	Loan 2748	7.192	7.192	21.12.2012	Custody Account 471724 and Comm real estate	
Skipti hf.	Loan 2749	7.291	7.291	23.12.2013	Custody Account 471724 and Comm real estate	
Skipti hf.	Loan 2750	1.973	824	29.08.2008	Commercial Real Estate	
Skipti hf.	Loan 3091	10.000	2.565	02.04.2014	Custody Account 471724	
Skipti hf.	Loan 4710	1.914	1.914	30.12.2013	Shares in Aerofone Ltd	
Skipti hf.	Loan 6408	4.563	4.563	30.12.2013	Shares in Venteloholding A/S	
Skipti hf.	Gurantees	559	0			
Skipti hf.		**37.255**	**28.112**			
Sirius IT Holding A/S	Loan 4050	783	783	30.12.2011	Shares in Tieto Enator Sverige, nv. 90.000	
Sirius IT Holding A/S	Loan 4051	1.033	1.033	31.12.2012	Shares in Sirius IT A/S Danmark, nv. 1.000,000	
Sirius IT Holding A/S	Loan 4053	512	0			
Sirius IT Holding A/S	Loan 4054-Mezz	355	355	30.12.2013	Mortgage Agreement SEK 50.000.000	
Sirius IT Holding A/S		**2.683**	**2.171**			
On-Waves ehf.	Loan 4893	**222**	**222**	30.12.2011	Shares in On-Waves nv. 3.333.333	
Skipti and subs.		**40.160**	**30.505**			

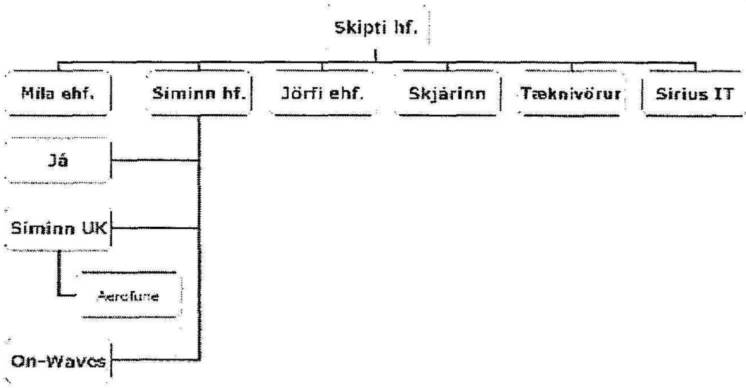
Management

Brynjólfur Bjarnason, CEO (Skipti)
Sævar Freyr Þráinsson, CEO (Síminn)
Kristín Guðmundsdóttir, CFO (Skipti and Síminn)
Páll Ásgrímsson, VP Legal Affairs (Síminn)
Þór Jes Þórisson, VP ICT (Síminn)
Sveinn Tryggvason, VP Business Processes (Síminn)
Katrín Olga Jóhannesdóttir, VP Residential Market (Síminn)
Jóhannes Rúnarsson, VP HR (Síminn)
Páll Á. Jónsson, VP Network (Míla)

Board of Directors

Lýður Guðmundsson, chairman
Erlendur Hjaltason
Panikos Katsouris
Sigurgeir Brynjar Kristgeirsson
Rannveig Rist

Organisation/Operations



Síminn is Skipti's largest subsidiary.

Síminn is the leading telecom operator in Iceland in all market segments. Síminn´s service standards are among the highest in the world. Síminn provides all Icelandic households and companies with state-of-the-art telephony services including a variety of value-added services.

Síminn can trace it's history back to 1906, the year when Iceland was first connected to the surrounding countries through to a telephone cable. Since then Síminn has introduced different waives of technology to the Icelandic consumers including

- In 1932 the first automatic switchboard
- In 1984 the first digital switchboard
- In 1985 the company started to use fibre optic cable to transmit phone calls
- In 1986 the company introduced NMT
- In 1994 the company introduced GSM
- In 1998 the company introduced broadband to the Icelandic market.
- In 2007 the company introduced 3G

In 1998 the government started the process of privatizing the company, which ended in 2005 when the government sold all of its shares.

Today Síminn provides all Icelandic households and companies with high standard fixed line telephony services, ISDN as well as a variety of value-added fixed line services. Síminn has 100% population coverage and approximately 120,000 fixed-line subscribers and market share of ca. 79% in 2005.

Iceland´s mobile market is one of the most advanced in the world. Síminn´s GSM network reaches 98% of Iceland's population and enables them to offer a wide range of services, including SMS, Value-added services, Voicemail, WAP, GPRS and Prepaid cards. Síminn has approximately 204,000 mobile subscribers and a market share of ca. 67%

Approximately half of the households in the greater Reykjavik area and about one third of households outside Reykjavik have the option of connecting to Síminn´s broadband service. In addition to Internet connections via broadband, Síminn offers Internet connections via ADSL and ISDN. The ISDN service reaches almost 100% of Iceland´s population, whereas ADSL covers about 92%. Síminn has about 46.000 broadband (ADSL) subscribers and ca. 61% market share.

Síminn is offering television through its broadband connection (ADSL). This includes several Icelandic as well as foreign TV stations, pay per view and other similar services. Síminn has about 25,000 television subscribers and ca. 25% market share.

Financial Performance

	Notes	1 April - 30 June 2008	1 April - 30 June 2007	1 January - 30 June 2008	1 January - 30 June 2007
Net sales		9.980.750	8.130.116	18.845.648	15.513.559
Cost of sales		(6.071.195)	(4.563.753)	(11.255.463)	(8.566.461)
Gross profit		3.909.555	3.566.363	7.590.185	6.947.098
Other operating income		125.188	133.266	228.255	180.147
Operating expenses		(2.918.295)	(2.550.943)	(5.595.812)	(4.811.710)
Operating profit		1.116.448	1.148.686	2.222.628	2.315.535
Finance cost	4	(1.488.948)	(48.705)	(6.984.123)	519.334
Share of loss in associates		(8.190)	(1.907)	(8.190)	(1.865)
(Loss) profit before tax		(380.690)	1.098.074	(4.769.685)	2.833.004
Income tax	5	(2.232)	(85.529)	780.235	(387.983)
(Loss) profit for the period		(382.922)	1.012.545	(3.989.450)	2.445.021

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Thousand ISK	2007	2006	2005	2004	2003
Income Statement:					
Revenue	15.513.559	25.030.127	21.641.489	19.806.111	18.761.585
	-	-	-	-	-
Operating expenses	11.196.344	16.587.408	14.187.847	12.261.013	11.381.063
EBITDA	4.317.215	8.442.719	7.453.642	7.545.098	7.380.522
Depreciation and amortisation	-2.001.680	-3.837.204	-3.847.409	-4.094.274	-4.464.425
EBIT	2.315.535	4.605.515	3.606.233	3.450.824	2.916.097
Financial income (expenses)	523.068	-8.942.702	661.478	417.879	-238.743
EBT	2.838.603	-4.337.187	4.267.711	3.868.703	2.677.354
Tax	-397.725	777.461	-235.622	-797.949	-534.594
Profit (loss)	2.440.878	-3.559.726	4.032.089	3.070.754	2.142.760
Balance Sheet:					
Intangible assets	62.926.745	61.155.750	58.533.100	285.713	186.312
Tangible assets	20.791.328	19.943.711	19.483.878	19.893.604	20.745.077
Inventory	883.207	841.939	765.117	589.664	355.331
Accounts receivable	5.541.099	5.755.229	3.887.794	2.652.479	2.791.765
Other current assets	2.222.485	1.210.109	585.515	5.166.222	4.514.863
Total assets	92.364.864	88.906.738	83.255.404	28.587.682	28.593.348
Shareholders' equity	32.107.826	29.446.873	32.801.052	16.991.923	16.058.078
Long term liabilities	46.315.875	50.903.244	44.601.880	4.658.700	7.014.839
Short term liabilities	13.941.163	8.556.621	5.852.472	6.937.059	5.520.431
Total liabilities	60.257.038	59.459.865	50.454.352	11.595.759	12.535.270
Total shareholders' equity and liabilities	92.364.864	88.906.738	83.255.404	28.587.682	28.593.348
Cash flow Statement:					
Cash flow from operations	2.991.642	6.706.310	6.849.346	6.730.628	7.213.988
Net investment activities	-3.413.359	-5.183.382	-3.406.501	-2.672.325	-2.838.750
Net financing activities	823.504	-1.091.715	-5.803.563	-3.516.048	-6.017.363
Increase (decrease) in cash	401.787	431.213	-2.360.718	542.255	-1.642.125
Effects of foreign exchange adjustments	-83.382	157.297	0	0	0
Cash at the end of period	1.371.785	1.053.380	464.870	2.825.588	2.283.333
Ratios:					
EBITDA/revenue	27,8%	33,7%	34,4%	38,1%	39,3%
Current assets/current liabilities	0,6	0,9	0,9	1,2	1,4
Equity ratio	34,8%	33,1%	39,4%	59,4%	56,2%

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Assets

	Notes	30.6.2008	31.12.2007
Non-current assets			
Property,plant and equipment	6	15.786.971	15.556.136
Intangible assets	7	69.635.801	66.765.472
Investments in associated companies		477.078	471.421
Investments in other companies	8	19.515.564	1.972.961
Other investment		459.248	279.597
Deferred tax assets		584.808	0
Non-current assets		106.459.470	85.045.587
Current assets			
Inventories	9	1.396.513	1.133.581
Accounts receivables		6.344.308	5.313.812
Other receivables		912.283	879.034
Cash and cash equivalents		5.049.294	5.269.137
Current assets		13.702.398	12.595.564
Total Assets		120.161.868	97.641.151

Equity and Liabilities

	Notes	30.6.2008	31.12.2007
Equity			
Share capital	10	10.141.373	7.365.146
Reserves		17.108.034	1.383.522
Translation reserves		(190.682)	(366.063)
Retained earnings		20.006.860	24.005.049
Equity holders of the parent		47.065.585	32.387.654
Minority interest		340.570	368.900
Total Equity		47.406.155	32.756.554
Non-current liabilities			
Borrowings	11	60.477.593	50.435.129
Deferred tax liabilities		0	304.731
Non-current liabilities		60.477.593	50.739.860
Current liabilities			
Bank loans		809.769	2.051.484
Accounts payables		4.490.404	4.674.284
Current maturities of borrowings	11	2.433.697	2.785.350
Other current liabilities		4.544.250	4.633.619
Current liabilities		12.278.120	14.144.737
Total liabilities		72.755.713	64.884.597
Total equity and liabilities		120.161.868	97.641.151

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	1 January - 30 June 2008	2007
Cash flow from operating activities		
Operating profit	2.222.628	2.315.535
Operational items not affecting cash flow:		
Depreciation and amortisation	1.837.129	2.001.042
Gain on sale of fixed assets	(1.085)	(13.161)
Changes in current assets and liabilities	3.875.620	26.367
Cash generated by operation	7.934.292	4.329.783
Interest income received during the year	276.833	218.539
Payments of taxes during the year	(2.386)	0
Interest expenses paid during the year	(1.124.874)	(1.556.679)
Net cash from operating activities	7.083.865	2.991.643
Investing activities		
Investment in property, plant and equipment	(1.814.007)	(2.052.083)
Investment in intangible assets	(260.796)	(38.230)
Proceeds from sale of property, plant and equipment	5.063	24.080
Changes in other investments	(161.232)	(23.507)
Changes in investment in other companies	(5.260)	(1.323.619)
Investing activities	(2.236.232)	(3.413.359)
Financing activities		
New borrowings	73.736	105.323
Payments of non-current liabilities	(5.358.520)	(1.518.172)
Bank loans, (decrease) increase	(25.159)	2.226.479
Buyback of ordinary shares	0	9.874
Financing activities	(5.309.943)	823.504
(Decrease) increase in cash and cash equivialents	(462.310)	401.788
Effects of exchange rate changes on the balance of cash	242.467	(83.382)
Cash and cash equivialents at the beginning of period	5.269.137	1.053.380
Cash and cash equivialents at the end of the period	5.049.294	1.371.786

Risk Evaluation

The majority of Skipti's revenues come from the Icelandic telecommunication sector which has seen eroding margins in 2008 due to various reasons e.g. increased competition and a tougher economical environment. The EBITDA margin has decreased from 26.0% to 21.3% compared to the same period in 2007. In addition due to the weakening of the Iceland krona the company's debt has been increasing. However, given Skipti´s strong market share on the Iceland market, the company should be well equipped to handle the challenges ahead.

SUMMARY AND RECOMMENDATION

An approval is sought to accept this credit application as detailed above.

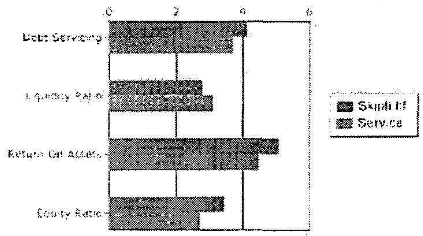
KAUPTHING

APPENDIX A
SKIPTI'S CREDIT RATING

Client	Skipti hf	**Status**	Accepted	**Analyst**	hbl	**RID:** 3010	
ID	4602070880	**Updated**	01 Apr 2008 14:06:49	**Account**	Annual 31.12.2007		

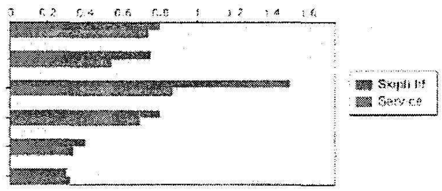
Quantitative

Ratio				Score	Weight		
Debt Servicing							
Debt / EBITDA	59.615.460 / 9.493.092	=	6,2798	g 4.13	20%	=	0.827
Liquidity Ratio							
Current Assets / Short Term Debts	12.395.554 / 14.144.737	=	0,8904	g 2.75	30%	=	0.834
Return on Assets							
Operating Results / Tot. Assets(2yr avg)	5.281.067 / 93.273.945	=	0.0567	g 5.1	5%	=	0.255
Equity Ratio							
Equity / Total Assets	32.756.554 / 97.641.151	=	0,3354	g 3.45	45%	=	1.552
					Total		3,468



Qualitative

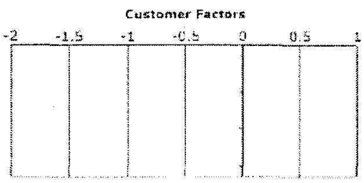
	Score	Weight		
Management and Strategy	4	20%	=	0.80
Sector Stability and Outlook	5	15%	=	0.75
Market Position	6	25%	=	1.50
Staff Cond. - Production - Machinery or Assets Valuation	4	20%	=	0.80
Financial Risk and Control	4	10%	=	0,40
Refinancing	3	10%	=	0.30
		Total		4.55



Model Score:	3,9007	**PD:**	1,08%	**Score:**	6

Customer Factors

Listing of Company's Stock	0.00
Previous mistreatment toward Kaupthing	0.00
Age of the company measured	0.00
Auditor's comment on the Statement	0.00
Total Shift	0.00



Comments

Entered	User	Action	Comment
31.03.2008	hbl	Started	
31.03.2008	hbl	Commented	The company is the market leader on the Icelandic telecom market, with upto 70% market share in selected market segments
31.03.2008	hbl	Commented	The management team is experienced and show ability to execute
31.03.2008	hbl	Commented	The telecom sector is growing and there are constantly seeing new sales cases/standards introduced to the market with increased revenue potential
31.03.2008	hbl	Commented	The quality of the financial reports is good
31.03.2008	hbl	Commented	The company's infrastructure is reasonably modern
01.04.2008	LG	Accepted	

Score Summary

					Score
Quantitative Score	[illegible]	60%	[illegible]		[illegible]
Qualitative Score	4,5500	40%	[illegible]		[illegible]

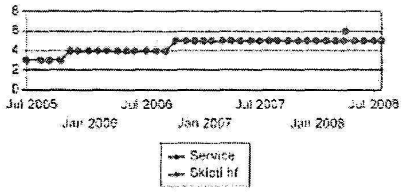
		PD	Score
Model Score	3,9007	[illegible]	[illegible]
Total Shift	[illegible]		
Shifted Score	3,9007	[illegible]	[illegible]

Final Score:	BB (6)
PD:	1,08%

Sector:	Service
Average Final Score:	BB- (5)
Average PD:	3,57%

Rating History

Date	Rating	Reason
April 2008	5	



03648

KAUPTHING

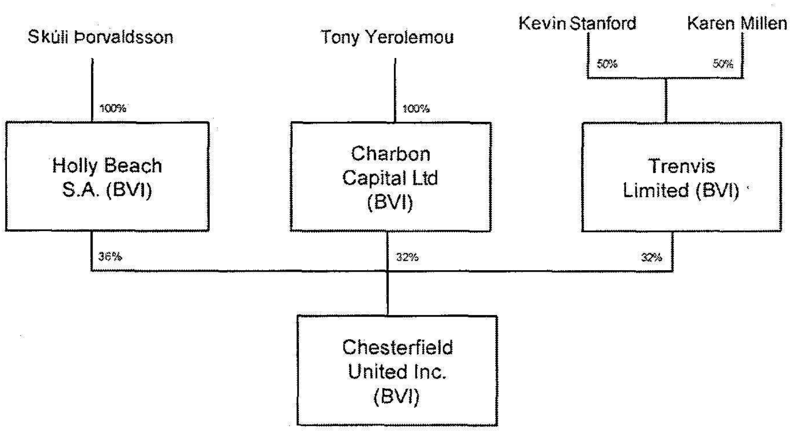
CREDIT APPLICATION

To:	BCC
Client name:	Skúli Þorvaldsson
From:	Halldór B. Lúðvígsson
Date:	21.09.2008
Subject:	Two new loans to entities related to Skúli Þorvaldsson amounting to around ISK 9.0 billion

CREDIT REQUEST, TRANSACTION AND TRANSACTION RATIONALE

1. Chesterfield is a SPV with the purpose of investing in a two times leveraged Credit Linked Note (CLN) issued by Deutsche Bank (DB) linked to Kaupthing Bank (KB).

There are three holding companies behind Chesterfield (see structure chart), including Holly Beach which owns 36% in Chesterfield. Skúli Þorvaldsson (SÞ) is the beneficial owner of Holly Beach.



The CLN has a final maturity date on 20 September 2013. Note notional is EUR 125m with a CDS notional of EUR 250m. Note coupon is 3m EURIBOR + 1,122.4 bps. There are EUR 5 million in costs.

DB lends EUR 125m to Chesterfield and the remaining EUR 130m comes from the three holding companies.

Holly Beach would like to borrow up to EUR 48.0 million which is their equity contribution in this transaction plus arrangement fee and transaction costs.

It is proposed that Kaupthing Bank offer the facility as a bullet loan with maturity on 20 September 2013, with a margin of 1.5% and arrangement fee of 1.45%. As security we will pledge the share capital in Holly Beach as well as the shares Holly Beach owns in Chesterfield.

The company is on the exception list with regard to credit rating.

03649

2. Holt Investment Group Ltd. is an investment company owned by SÞ, holding shares in both Kaupthing Bank (22 million shares) and Exista (93.9 million shares). The company currently has a loan amounting to some ISK 17 billion, which is secured with the company's shares subsidiaries and therefore effectively over all its assets and equity. SÞ has now requested an additional loan to Holt of up to ISK 2,570 million, for the purpose of buying additional 3.7 million shares in Kaupthing Bank.

It is proposed that we offer this loan to Holt as a bullet loan with maturity on 02.07.2009, with a margin of 3.00%.

The company is on the exception list with regard to credit rating.

Skúli Þorvaldsson.

Currently, outstanding exposure for entities related to SÞ is approximately ISK 74 billion. This exposure is mostly related to different trading activities SÞ carries out with the bank and is secured with the underlying securities. The exception is the exposure on Immo Croissance which is a term loan related to Skúli Þorvaldsson's proposed takeover of a real estate company, which was previously jointly held by SÞ and Baugur. That loan is currently due on 31 October 2008, but discussions are taking place regarding the refinancing of that loan.

The two new loans proposed in this memo will increase the total exposure to around ISK 83.0 billion.

Location	Local ID	Name	Drawn amount (EUR)	Drawn amount (ISK)
LUX	401958	Holly Beach SA	183.933.862,00	23.568.622.915
LUX	402265	Immo Croissance SICAV SII	121.950.753,00	15.626.330.467
LUX	400637	Marple Holding SA	89.916.018,00	11.521.514.849
LUX	401983	Skulux SA SPF	18.109.479,00	2.320.483.445
LUX	401852	LMB INVEST LTD	15.064.251,00	1.930.278.892
LUX	400474	Murry Holding S.A.	9.210.074,00	1.180.145.726
LUX	401918	Morecra Limited	5.263.240,00	674.412.626
LUX	401445	Imis ehf	525.494,00	67.334.909
LUX	100059	Skuli Thorvaldsson	33.200,00	4.254.128
LUX	102073	Skuli Thorvaldsson	7.342,00	940.777
LUX	400415	Holt Holdings S.A.	5.175,00	663.106
LUX	400343	Vanquish Limited	73,00	9.354
		Lux total	**444.018.961,00**	**56.894.991.194,28**
IS	FTSvið	Holt Investment Group Ltd.		17.052.523.824
IS	VBSvið	Skúli Þorvaldsson		2.130.000
		IS total		**17.054.653.824**
		Total exposure		**73.949.645.019**

SUMMARY AND RECOMMENDATION

An approval is sought to accept this credit application as detailed above.

03650

IV / 3.1.1.1

SÉRSTAKUR SAKSÓKNARI	SKÝRSLA Mætingarskýrsla	
Skýrslu gerir Sveinn I. Magnússon, aðstoðaryfirlögregluþjónn		Mál nr. 090-2009-0012
Staður og stund: Skrifstofa ríkislögreglustjórans, þriðjudaginn 9. júní 2009, kl. 15.00		
Sakarefni: Grunur um auðgunarbrot og markaðsmisnotkun		
Vitni: Ólöf Embla Einarsdóttir		Kennitala: 150576-3779
Starf/staða: Kaupþing, regluvörður		Vinnusími: 444-6174 / 856-6174
Lögheimili: Austurströnd 2, 170 Seltjarnarnes		Sími: 552-9202
Dvalarstaður:		Sími:

Ólöf Embla Einarsdóttir er mætt til yfirheyrslu hjá sérstökum saksóknara samkvæmt boðun. Henni er kunngert um tilefni yfirheyrslunnar, sem er rannsókn sérstaks saksóknara á ætluðum refsiverðum brotum er kunna að varða við XXVI. kafla almennra hegningarlaga nr. 19/1940 um auðgunarbrot og ákvæði 117. gr. laga um laga um verðbréfaviðskipti nr. 108/2007, er varðar markaðsmisnotkun, í tengslum við lánveitingu Kaupþings hf. til eftirtalinni félaga í september 2008: Serval Trading Ltd., Gerland Asset Ltd. og Brooks Trading Ltd., öll skráð á eyjunni Tortola sem er ein Bresku jómfrúareyja. Lánveitingar þessar tengjast kaupum félagsins Q Iceland Finance á 5,01% hlut í Kaupþingi banka hf. í september 2008.

Ólöfu Emblu er kunngert að hún njóti réttarstöðu vitnis við yfirheyrsluna samkvæmt lögum nr. 88/2008 um meðferð sakamála. Henni er kunngerð vitnaskyldan um að öllum sé skylt að mæta fyrir dóm í opinberu máli séu þeir til þess kvaddir, sbr. 1. mgr. 116. gr. laga nr. 88/2008. Ólöfu Emblu er jafnframt kunngerð vitnaábyrgð um að vitni kunni með vísvitandi eða gáleysislega röngum framburði í skýrslu hjá lögreglu að baka sér refsiábyrgð, sbr. 1. mgr. 122. gr. laga nr. 88/2008. Enn fremur er Ólöfu Emblu kunngert að vitni sé rétt að skorast undan því að svara spurningu ef ætla má að í svari þess geti falist játning eða bending um að það hafi drýgt refsiverðan verknað, sbr. 1. mgr. 118 gr. laga nr. 88/2008.

Aðspurð segir Ólöf Embla að hún skilji framangreind lagaákvæði.

Ólöfu Emblu er kunngert að yfirheyrslan verði tekin upp í hljóð- og mynddisk í samræmi við 2. mgr. 66. gr. laga um meðferð sakamála nr. 88/2008 og reglur nr. 826/2005 um framkvæmd hljóðritana og upptökur.

Aðspurð segir Ólöf Embla að hún hafi ekki neinar athugasemdir við það.

Ólöfu Emblu er kunngert að yfirheyrslan fari þannig fram að hún verði spurð spurninga og beðin um að svara þeim. Ólöf Embla er hvött til að svara skýrt og hafa svör greinargóð.

Sveinn Ingiberg Magnússon, aðstoðaryfirlögregluþjónn, Hinrik Pálsson, lögreglufulltrúi, og Hulda Hákonardóttir, lögfræðingur, munu annast yfirheyrsluna..

ÓEE.

Í yfirheyrslunni voru eftirfarandi skjöl borin undir Halldór en númeraröð þeirra er samkvæmt skjalaskrá málins:

I/26
I/27
I/30

Yfirheyrsla hefst kl: 15:00.

Yfirheyrslu lokið kl. 16:35.

Lesið og yfirfarið, staðfesti rétt eftir haft,

Ólöf Embla Einarsdóttir

Yfirheyrslu annaðist

Sveinn I. Magnússon

Viðstaddir yfirheyrslu,

Hinrik Pálsson

Hulda Hákonardóttir

(IV/3.1.1.3

Málsnr: **009-2009-12 – Diskur nr.12205**
Staðsetning: **Skrifstofa ríkislögreglustjórans.**
Dagsetning: **9. júní 2009**
Klukkan: **15:00**

SS: **Sérstakur saksóknari**
ÓEE: **Ólöf Embla Einarsdóttir kt. 150576-3779.**
Starf: Regluvörður hjá Nýja Kaupþingi banka.
Vinnusími: 444-6174.
GSM: 856-6174.
Lögheimili: Austurströnd 2, 170 Seltjarnarnes.
Heimasími: 552-9202

SS Ólöf Embla Einarsdóttir er mætt til yfirheyrslu hjá sérstökum saksóknara samkvæmt boðun. Henni er kunngert um tilefni yfirheyrslunnar, sem er rannsókn sérstaks saksóknara á ætluðum refsiverðum brotum er kunna að varða við XXVI. kafla almennra hegningarlaga nr. 19/1940 um auðgunarbrot og ákvæði 117. gr. laga um laga um verðbréfaviðskipti nr. 108/2007, er varðar markaðsmisnotkun, í tengslum við lánveitingu Kaupþings hf. til eftirtalinni félaga í september 2008: Serval Trading Ltd., Gerland Trading Ltd. og Brooks Trading Ltd., öll skráð á eyjunni Tortola sem er ein Bresku jómfrúareyja. Lánveitingar þessar tengjast kaupum félagsins Q Iceland Finance á 5,01% hlut í Kaupþingi banka hf. í september 2008.

Nafnið þitt hefur borið á góma bæði hérna við yfirheyrslur og eins í gögnum höfum við séð nafnið þitt þannig að þess vegna ertu nú hér komin með réttarstöðu vitnis og sú skylda hvílir á öllum vitnum að þeim beri að mæta fyrir dóm séu þeir til þess kvaddir. Það er svona þessi almenna skylda allra vitna á Íslandi. Jafnframt hvílir sú ábyrgð á öllum vitnum að þeim beri að skýra satt og rétt frá og rangur framburður vitnis getur skapað því refsiábyrgð. Þannig að þú skilur þessi ákvæði?

ÓEE Ég skil þetta já.

SS Þú ert lögfræðingur er það ekki?

ÓEE Jú, jú. Reyndar ekki sakamál hafa aldrei verið.

SS Eins vísum við hérna til 118 gr. laga um meðferð sakamála þ.e.a.s. að ef ég ber undir þig einhverja spurningu og í svari þínu getur falist játning á þátttöku í broti að þá þarftu ekki að tjá þig um það og við myndum þá væntanlega þurfa að snúa þér um réttarstöðu. En eins og ég kynnti þér áðan þá verður þetta tekið upp í hljóði og mynd. Einhverjar athugasemdir varðandi það?

ÓEE Nei engar.

SS Ég heiti Sveinn Ingiberg Magnússon, aðstoðaryfirlögregluþjónn og með mér hérna í dag eru Hinrik Pálsson, lögreglufulltrúi og Hulda Hákonardóttir, lögfræðingur hjá sérstökum saksóknara og við munum annast þessa yfirheyrslu. Einhverjar athugasemdir áður en við byrjum?

03653