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## Lýsing HF

(incorporated in Iceland as a public limited company)

### 1. RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Bonds are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Bonds but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Bonds may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate.

#### **Risks Relating to the Bonds**

Set out below is a brief description of principal risks relating to the Bonds generally:

##### *Issuer's liability to make payments under the Bonds*

The Issuer is liable to make payments when due on the Bonds. The obligations of the Issuer under the Bonds are direct, unsecured, unconditional and unsubordinated obligations, ranking *pari passu* without any preference amongst themselves and equally with its other direct, unsecured, unconditional and unsubordinated obligations (save for any obligations required to be preferred by law).

The Issuer has not entered into any restrictive covenants in connection with the issuance of the Bonds regarding its ability to incur additional indebtedness ranking *pari passu* to the obligations under or in connection with the Bonds.

##### *No Prior Public Market*

The Bonds constitute a new issue of Bonds. Prior to listing, there has been no public market for the Bonds. Although application has been made to admit the Bonds to trading on the regulated Market of the ICEX, there can be no assurance that an active public market for the Bonds will develop and, if such a market were to develop, the Manager is under no obligation to maintain such a market. The liquidity and the market prices for the Bonds can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and other factors that generally influence the market prices of securities. Such fluctuations may significantly affect the liquidity and the market prices of the Bonds, which may trade at a discount to the price at which a purchaser purchased the Bonds.

##### *An investment in the Bonds may not be suitable for all prospective investors*

The Bonds are not suitable investments for all investors. In particular, prospective investors should not purchase the Bonds unless they have sufficient knowledge and experience to make meaningful evaluation of the credit, liquidity and market risks associated with the Bonds.

Prospective investors should possess, either alone or together with an investment advisor, the expertise necessary to evaluate the information contained in this Securities Note in the context of its financial situation and tolerance for risk. Potential Investors should carefully consider, among other things, the factors described in this section before purchasing the Bonds.

##### *Change of law*

The terms and conditions of the Bonds are based on Icelandic law in effect as at the date of this Securities Note. No assurance can be given as to the impact of any possible judicial decision or change to Icelandic law or administrative practice after the date of this Securities Note.

## 2. PERSON RESPONSIBLE

Lýsing hf., in its capacity as the Issuer, Icelandic ID-No. 621101-2420, registered office at Sudurlandsbraut 22, 108 Reykjavík, Iceland, hereby declares that having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavik, 14 June 2007  
On behalf of the Issuer



Sigurður Valtýsson,  
Chairman of the Board

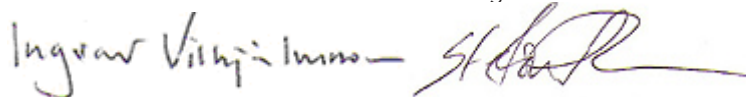


Ólafur Helgi Ólafsson  
CEO

## 3. MANAGER

The Manager, Kaupthing Bank hf - Capital Markets, Icelandic ID-No. 560882-0419 registered office at Borgartun 19, 105 Reykjavík, Iceland has been the advisor to the Issuer in the preparation of this Prospectus. The Manager has not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Manager as to the accuracy or completeness of the information contained or incorporated in this document or any other information provided by the Issuer in connection with the Bonds. The Manager does not accept any liability in relation to the information contained or incorporated by reference in this document or any other information provided by the Issuer in connection with the Bonds.

Reykjavik, 14 June 2007  
On behalf of the Manager



Ingvar Vilhjálmsón  
Managing Director

Stefán Ákason  
Head of Fixed Income Sales

## 4. REFERENCES AND GLOSSARY OF TERMS AND ABBREVIATIONS

References to the "Issuer", "Lýsing" and "the Company" in this Securities Note shall be construed as referring to Lýsing hf., Icelandic ID-No.621101-2420, unless otherwise clear from the context, and its subsidiaries and affiliates, unless otherwise clear from the context. Lýsing hf. is the legal Icelandic name of the Issuer.

References to "ICEX" in this Securities Note shall be construed as referring to the Iceland Stock Exchange, i.e. to Kauphöll Íslands hf., Icelandic ID-No.681298-2829, unless otherwise clear from the context. References to the "admission to trading" and the "admission to trading on a regulated market" in this Securities Note shall be construed as referring to the admission to trading on the bond market of the Iceland Stock Exchange, unless otherwise clear from the context.

References to "ISD" in this Securities Note shall be construed as referring to the Icelandic Securities Depository, i.e. to Verðbréfaskráning Íslands hf., Icelandic ID-No. 500797-3209, Laugavegur 182, 105 Reykjavík, Iceland, unless otherwise clear from the context.

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

References to the "Bond issue" or "the Bonds" in this Securities Note shall be construed as referring to the bond issue of ISK 750,000,000 which is described in this Securities Note, unless otherwise clear from the context.

## 5. NOTICE TO INVESTORS

In making an investment decision, potential investors should carefully consider the merits and risks of an investment in the Bonds and carefully review the terms and conditions of the Bonds described under Issue and Bond characteristics.

This Securities Note is to be read in conjunction with the documents which are deemed to be incorporated herein by reference (see "Documents incorporated by reference"). This Securities Note shall be read and construed on the basis that such documents are incorporated and form part of this Securities Note.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Securities Note or any other information supplied in connection with the Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Manager.

Neither this Securities Note nor any other information supplied in connection with the Bonds (a) is intended to provide the basis for any credit or other evaluation; or (b) should be considered as a recommendation by the Issuer or the Manager that any recipient of this Securities Note or any other information supplied in connection with the Bonds should purchase any Bonds. Each investor contemplating purchasing any Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Securities Note nor any other information supplied in connection with the Issuer constitutes an offer or invitation by or on behalf of the Issuer or the Manager to any person to subscribe for or to purchase any Bonds.

Neither the delivery of this Securities Note nor the offering, sale or delivery of any Bonds shall under any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Bonds is correct as of any time subsequent to the date indicated in the document containing the same. The Manager expressly does not undertake to review the financial condition or affairs of the Issuer during the life of the Bonds or to advise any investor in the Bonds of any information coming to their attention. Investors should review, *inter alia*, the most recently published document incorporated by reference into this Securities Note when deciding whether or not to purchase any Bonds.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. persons.

## 6. KEY INFORMATION

The Issuer's and the Bank's interests are connected in the following manner:

- Lýsing is a subsidiary of Exista. Exista is a large shareholder in Kaupthing Bank and at 11 June 2007 it held 23,0% of the bank's total issued shares. At the same date Kaupthing held 1,97% of Exista's issued shares. The majority of Kaupthing's shares in Exista, 1,64%, is a hedge against forward contracts.
- Lýsing is a customer of Kaupthing Bank's Investment Banking, Capital Markets and Corporate Banking divisions.
- Kaupthing Bank is among Lýsing's largest creditors.
- At 11 June 2007 Kaupthing Bank owned 27% of shares and Exista owned 43,6% of shares in Icelandic Telecom. At the same time Kaupthing bank owned 17.97 % of shares and Exista owned 22.01% of shares in Flaga Group.

## 7. INFORMATION CONCERNING THE SECURITIES TO BE ADMITTED TO TRADING

### Authorisation

The board of Lýsing authorised a bond issue for ISK 750,000,000 at a board meeting held on 18 May 2006. This Issuer has at the date of this Securities Note issued bonds amounting in total to ISK 750,000,000 under LYS 06 1.

### Issue and Bond characteristics

The Bonds are interest-bearing securities issued electronically at the Icelandic Securities Depository and are registered there under the name of the relevant bondholder or his/her nominee. The Bonds are all in the same class, and the ticker symbol on ICEX will be LYS 06 1.

The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer.

Date of issue:	2 May 2006
Nominal amount:	ISK 750,000,000
Denomination:	ISK 5,000,000
Currency:	ISK
Interest rates:	The rate of interest payable on the Bonds will be 5.95% fixed rate. Interest will be calculated from 2 May 2006. The first coupon date is 2 May 2007.
Price indexation:	The bonds are inflation-linked and linked to the Consumer Price Index which is calculated and published by Statistics Iceland, according to Act No.12/1995, with the base CPI in April 2006 at 255.2 points.
-Calculation agent:	Kaupthing Bank
Depository agent:	Icelandic Securities Depository
Paying agents:	Kaupthing Bank
Interest payment dates:	2 May annually with the first interest payment date being 2 May 2007 and the last being 2 May 2016.
Maturity date:	The principal will be repaid in full in one payment on 2 May 2016. The Bonds are recalled 2 May 2011.
Method of payment:	All amounts payable under the Bonds will be paid to relevant financial institution where the registered owner has his/her VS account.
Indication of yield:	Approximately 5.95%, at the first date of the selling period.
Day count fraction:	Interest shall be calculated on the basis of the rule Act/360. Each Interest Period shall be of one year duration.
Restrictions on transfer:	There are no restrictions on transferring the Bonds to other parties.
ISIN code:	IS0000012961

#### Event of Default, Acceleration and Enforcement

In the event of default of payment of the principal or interest on any bond, it is permitted to declare the Bonds immediately due and payable, whereupon it shall become immediately due and payable at its outstanding principal amount together with accrued interest. If default occurs the Issuer shall furthermore pay default interest at the rate determined by the Central Bank of Iceland, cf. paragraph 1, article 6 of Act no. 38/2001.

#### Prescription

The Bonds will become void in accordance with Act no. 14/1905 unless presented for payment within 10 years (in the case of principal) and four years (in the case of interest or any other amount) after the Relevant Date.

#### Taxation

All payments in respect of the Bonds by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any tax jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will not pay any additional amounts in respect of amounts withheld pursuant to such withholding or deduction.

#### Governing law

The governing law is Icelandic law. The Issuer irrevocably agrees that any dispute shall be subject to the exclusive jurisdiction of the District Court of Reykjavík (Héraðsdómur Reykjavíkur). Legal action regarding the Bonds may be proceeded with in accordance with the Act on Civil Procedure no. 91/1991 (Lög um meðferð einkamála) Chapter 17. The Bonds are registered electronically and are therefore subject to the Act No. 131/1997 on Electronic Registration of Title to Securities .

#### Admission to trading and expenses relating thereto

Application was made to the Iceland Stock Exchange (the **ICEX**) as the competent authority in Iceland for the purpose of Directive 2003/71/EC (the **Prospectus Directive**), the Icelandic law no. 33/2003, as amended and the relevant regulations based on the law for approval of this Securities Note. ICEX has scrutinized and approved this Securities Note, which is only published in English. Application has also been made for the Notes to be admitted to trading on the regulated market of the ICEX, which is an EU regulated market within the meaning of Directive 2004/39/EC.

The Bonds will be admitted to trading on the Iceland Stock Exchange, on 15 June, 2007 (LYS 06 1).

The expenses related the listing of the Bonds ISK 450,000 according to ICEX fee structure. Annual expenses because of this listing will be fixed fee of ISK 165,000 plus a variable fee of 0.001% of the market value of the Bonds according to ICEX fee structure. The estimated cost at the ISD is ISK 120,000. The Issuers cost relating to the preparation of the Prospectus is ISK 250,000.