VIÐSKIPTARÁÐ ÍSLANDS
ICELAND CHAMBER
OF COMMERCE

ICELAND'S ADVANCE

FOREIGN INVESTMENT 2001-2006

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EXECUTIVE SUMMARY

The recent sharp increase in Icelandic foreign direct investment (FDI) has caught the attention of the international financial community, gaining special attention in the media of Denmark and the UK, where Icelandic businesses have been most active. Such agressive expansion raises questions that must be answered in order to ensure a proper flow of information between Icelandic businesses and their host nations.

Foreign expansion is a necessary and natural evolution of Icelandic businesses that outgrow the domestic market. Iceland is a small country, with a small population and consequently limited workforce. In an economy of this size, the largest Icelandic companies can reach a market capitalization equivalent to substantial portions of GDP, unheard of in most other developed countries.

Iceland's advance on foreign markets has been a rapid process that arose from a number of domestic factors in the last decades of the 20th Century. Membership in the European Economic Area opened up new markets to Icelandic companies, strong pension funds provided much-needed capital for investments, and the privatization of the banking system provided new sources of financing for companies wishing to expand operations abroad. Furthermore, increasing education opportunities gave rise to a young workforce often educated abroad that has become an entrepreneurial class of executives.

Such favorable circumstances enncouraged Icelandic companies to move abroad, leading to a situation where many companies currently establish an international focus from the moment of their inception. Most often, expansion has been directed at Northern Europe, with acquisitions concentrated in the UK and Scandinavian countries. Britain's status as the financial center of Europe and its faorable attitude toward foreign firms make it an attractive destination; despite some negative press, language and cultural similarities make Iceland's Scandinavian neighbors, particularly Denmark, common recipients of Icelandic investments.

Despite the geographical focus, Icelandic FDI has been very diverse across sectors, and has been largely successful because of it. Many companies operate in very specialized global niches, making an international focus critical to their growth. Furthermore, Icelandic companies' structure has enabled them to take advantage of rapid changes in the business environment, with a typically small heirarchy that makes them more flexible and adaptible than others.

Though the future of Iceland's advance is far from written, certain successes and failures show both a capacity to make sound, economically-profitable investments, and to learn from the mistakes of failed ventures. In all, the characteristics of Iceland's rapid expansion abroad show great potential for businesses to make a positive impact on the global economic community for years to come.

INTRODUCTION

In recent years, Icelandic businesses have experienced an extraordinary rate of international growth and expansion. This phenomenon has caught the attention of economists, analysts, the media, and even the general public around the world. Such expansion, motivated by domestic and international factors, is a natural development as companies outgrow the local market and turn their attention to finding new markets abroad. Icelandic organizations now own or hold a majority stake in many long-established businesses, primarily in the Britain and the Scandinavian countries. This aggressive expansion of Icelandic businesses into Europe has resulted in an extensive media coverage, and considerable coverage by financial analysts and rating agencies.

Volatility and economic imbalances have given rise to concerns about the financial stability of Iceland's economy and financial system during the first months of 2006. Due to these imbalances and the risk posed by the looming correction process, Fitch Ratings put Iceland's sovereign credit rating on a negative outlook in February. In the following weeks, negative discussion escalated when several pessimistic reports were released by bank analysts and rating agencies. Those concerns were understandable to a certain degree. Iceland is after all one of the smallest sovereign countries in the world, with only 300,000 inhabitants, and following the dramatic transformation of Iceland's economy over a relatively short period of time, key indicators appeared abnormal and even alarming. Among these was a double-digit current account deficit, phenomenal growth in corporate debt and considerable volatility in the currency.

The sudden presence of Icelandic companies in the global economy demands an explanation of the factors leading to such rapid expansion. If this information is not adequately provided to key stakeholders, decisions may be made based on the wrong assumptions. Hence, the biggest risk facing the Icelandic economy in 2006 was that misguided and often negative media coverage would lead to a hostility toward Icelandic firms, causing further instability in Iceland's economy and financial system.

In order to respond to increased global interest in the Icelandic situation, the Iceland Chamber of Commerce commissioned a study to assess the financial stability of the Icelandic economy and financial system. Professor Frederic Mishkin[i] and Professor Tryggvi Thor Herbertsson[ii] wrote a comprehensive report aimed at enhancing the international community's understanding of the Icelandic economy. Their report, *Financial Stability in Iceland,*[iii] provides a framework for evaluating financial fragility by examining the fundamentals of Iceland's economy to see whether they suggest that the country could go down the traditional routes to financial instability. The report concludes that while overheating was evident in the Icelandic economy, financial fragility is not a problem, and the likelihood of a financial meltdown is very low.

The Iceland Chamber of Commerce, in its effort to improve the flow of information in the global community, issues its report, *Iceland's Advance*, with an aim to explain the recent international growth of Iceland's key businesses. Since it is not the role of individual companies to mediate information not directly related to their operations, the Chamber has taken on the role of assimilating disparate sources of information, in order to draw up a coherent picture of this recent advance. The report attempts explain the key elements that have facilitated the rapid internationalization of Iceland's businesses. It provides a comprehensive, though not exhaustive, overview of foreign acquisitions and major investments of Icelandic businesses over the past six years. Finally, it attempts to assess and respond honestly to some of the criticism and questions that have been raised by the international community. The main focus is on companies listed on the Icelandic Stock Exchange (ICEX)[iv], but key large businesses outside of ICEX are also included.

In writing this report, various sources have been consulted. They include previous reports issued by the Iceland Chamber of Commerce, corporate and governmental web sites, doctoral work in progress, and news archives. Corporate representatives, including CEOs of the organizations featured in the Profiles section have also provided information when needed. While the report does not include a bibliography, we acknowledge that the process involved wide consultation. We extend our gratitude to all those who contributed their time and effort to make the report as accurate and comprehensive as possible.

i At the time he was the Alfred Lerner Professor of Banking and Financial Institutions at the Graduate School of Business, Columbia University and National Bureau of Economic Research. He is currently a Member of the Board of Governors of the US Federal Reserve System.

ii He was the executive manager of the Institute of Economic Studies at the University of Iceland during that time. Today, he is the CEO of Askar Capital, an Icelandic investment bank.

iii The report is available on the webpage of Iceland Chamber of Commerce: www.chamber.is

iv The Icelandic Stock Exchange has merged with the OMX Nordic Exhange and the nanme was changed to OMX Nordic Exchange in Iceland. Nevertheless, it will be referred to as the Icelandic Stock Exchnage throughout this report since the name change did not take place until January 2007.

CHAPTER 1

THE PATH TO GLOBALIZATION

Globalization is not a new concept to the Icelandic nation. Over 1,000 years ago, the country was actively involved in international trade when the infamous Vikings sailed across the oceans. Despite their barbaric reputation, they were no more than merchants who took advantage of their more advanced sailing skills at the time.

Even though the tradition of international trade can be traced back to the Middle Ages, Iceland retreated from those activities as time passed. For several reasons, mostly internal conflicts, the country gave away its autonomy to Norway in the 13th century. The Danish crown gained full autocracy over the country in the 17th century. Apart from its relationship with Denmark, Iceland existed in isolation from the rest of world until the abolition of the Danish autocracy in the 19th century, when Iceland finally moved toward being an independent nation.

During the first half of the 20th century, Iceland's trade was limited to primary goods, primarily exporting marine products and importing necessities not available domestically. The country gradually moved from its inward-looking mindset, which placed more emphasis on domestic issues, toward a broader approach to policymaking. Since WWII, Iceland has made much progress toward becoming a truly global nation, participating at all levels in the international arena. The country has modernized very quickly over the past decades, making the transition from an emerging economy to a leader in the global market in several fields.

One of the main factors enabling this transition has been the size of Iceland's economy. Relative to population, Iceland is one of the smallest sovereign nations in the world, with only 300,000 inhabitants. This gives the country enormous flexibility and adaptability, creating an environment in which changes take place more rapidly than would be possible in a larger economy. The high pace of development does not seem to be slowing down, as recent trends show that the economy has grown faster than ever before during the past ten years, with immense structural and social developments taking place. One of the most dramatic changes in the structure of the economy has been the globalization of the Icelandic business environment. The domestic market has quickly become too small for the major companies, leaving them with no other option than to look abroad for further expansion opportunities.

In proportion to its small size, Iceland has made significant foreign direct investments in recent years. From 1990-1998, the level of such investments was very low both in real and relative terms, amounting to less than 0.5% of GDP on average. The year 1999 was a turning point, when FDI outflow increased to over 1.2% of GDP and continued to grow to over 4.5% of GDP in 2000. In this context, it is interesting to point out that during that same year, average FDI outflow among the OECD countries was 2.5% of GDP.

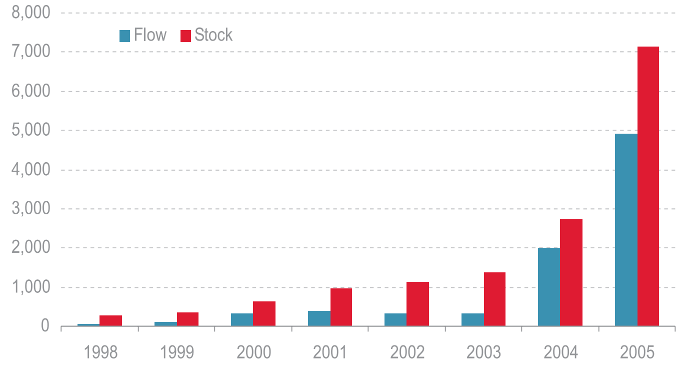


FIGURE 1
ICELANDIC FOREIGN DIRECT INVESTMENT FLOWS AND STOCK, 1998-2005

Source: Central Bank of Iceland

This development continued with escalating speed and according to the Central Bank of Iceland, the annual outflow of foreign direct investment between 1998 and 2005 increased from EUR 58 million to EUR 4.9 billion.[1] This is nearly an 85-fold increase in just 7 years and a remarkable annual outward FDI flow in 2005, over 43% of GDP. At the end of 2005 Icelandic foreign direct investment position totaled close to EUR 7.1 billion Euros. During these years Iceland has also diversified its investments abroad substantially, decreasing the proportion of FDI in the fishing industry dramatically. These are not large numbers in absolute terms, but as mentioned above, it must be kept in mind that the Icelandic economy is very small. In fact, Iceland has the smallest economy within the OECD nations, generating a GDP of 10.8 billion Euros in 2005. To put this in context, this is less than 1/20 of the Danish economy, and 1/1000 of the US economy. However, this does not mean that the Icelandic economy is performing poorly since its GDP per capita is among the highest in the world.

The increasing advance of Icelandic firms into foreign markets is attributable to several factors. It is safe to say that the economy has undergone more changes in past decades than ever before in the country's history. In addition to internal structural changes and financial liberalization, a favorable global and domestic business environment has led Icelandic corporations toward a broad-minded global perspective rather than a myopic, inward-looking one. The following overview highlights how extensive these changes have been.

1 The exchange rate used in all calculations within this report is EUR/ISK=90.

1.1 Financial Liberalization and EEA

In the last 120 years, Iceland has evolved through four types of financial systems: from barter to an immature liberal system, a repressed financial market, and finally to a full-fledged liberal market.

Prior to 1886, commercial banks did not exist and the economy relied primarily on bartering. The use of Danish banknotes (but not silver coins) was actually forbidden in 1836 because of their perceived chaotic consequences for the existing system of exchanging goods. The lack of adequate financial arrangements impeded the modernization of the economy, giving rise to new institutions.

The second period, from 1886 to 1930, saw the establishment of two commercial banks, and for almost 50 years the country relied on liberal financial institutions and open capital markets. This arrangement did not last long, however, and a third period of repressed financial markets emerged.

This third period began when Iceland gained its independence in 1918, a development that gradually introduced a mistrust of foreign investors and increasing government interference in financial markets. For example, private foreign investments were prohibited, access to foreign currency was strictly regulated, the government determined nominal interest rates, real interest rates were typically negative, management of financial institutions was openly divided between the political parties, and political managers rationed credit to favored industries and borrowers.

By the 1960s and 70s, the financial system bore a closer resemblance to arrangements in the Third World than those in northwestern Europe, being defined by the interests of leading political actors and pressure groups rather than market forces.

The third phase came to an end in 1979 when the system self-destructed. A rapidly rising rate of inflation created double-digit negative real interest rates, which reduced the demand for deposits significantly, slicing the banking system in half. Political managers reacted by protecting their favorite customers, partly with a substantial increase in foreign borrowing, but it soon became clear that the old system was untenable.

The fourth episode began in 1979 with Iceland's transition to a liberal financial system. A more detailed explanation of the period will provide a better understanding its relevance to the expansion of Icelandic businesses abroad. The reforms carried out during this period established the conditions that have allowed firms to grow and expand to their current state of involvement in foreign markets.

The first step in the reform process was taken in 1979 when the authorities, still controlling nominal interest rates, introduced general indexation of financial obligations, including bank deposits and loans. Indexation involves the adjustment of the nominal values of financial assets to reflect changes in price levels, which generally means that real interest rates are positive as long as the nominal rates are positive. In Iceland, financial indexation proved highly successful in restoring the stock of financial savings.

The next major step was taken between 1984 and 1986, when the government relinquished its control of interest rates. This, along with other forms of deregulation, stimulated the rapid development of markets for various types of securities. The central bank gradually reduced the reserve requirement ratios of the commercial banks from 28% in 1979 to 5% in 1992. Under the old system, the Treasury had met its financial needs through overdraft with the central bank, but a new policy in the 1990s ended that practice, allowing the Treasury to meet its borrowing needs in the financial market.

Two significant reforms occurred in 1992: the establishment of an active capital market, when the first Icelandic stocks were traded on the Icelandic Stock Exchange, and the government's removal of currency trade restrictions. These developments made access to capital much easier than ever before. Prior to this, all inflow and outflow of capital had been highly regulated, restricted, and in some cases prohibited by the Icelandic government.

In 1993, an inter-bank market for foreign exchange was established. A year later, long-term capital movements were fully liberalized, with short-term capital movements following shortly thereafter. In 1995, new legislation was approved for foreign direct investment, marking the final step to financial liberalization in Iceland.[2]

Iceland's membership in the European Economic Area (EEA) in 1994 marked a major milestone in the country's integration into the global economy, a development that was achieved through membership in the European Free Trade Association (EFTA), which Iceland joined in 1970. The EEA Agreement, a bilateral arrangement between the EU and the EFTA nations, gives the latter access to the internal market of the EU.

The EEA Agreement focuses on the four fundamental pillars of the internal market, known as "the four freedoms." These ensure the freedom of movement of goods (excluding agriculture and fisheries, which are included in the Agreement only to a very limited extent), persons, services and capital. Adopting the Agreement gave Icelandic companies access to European markets and played a fundamental role in facilitating future developments.

One of the primary obligations of the Agreement is to ensure equal conditions of competition. This covers the rules concerning cartels, the abuse of dominant positions, mergers, state monopolies and

2 Information taken from *Financial Stability in Iceland*, by Mishkin & Herbertsson

state aid. By implementing these rules, Icelandic corporations were forced to adapt to European standards, which improved the competitiveness of the economy as a whole as well as that of individual corporations. This parallel business legislation familiarized Icelandic companies with European markets and made it easier for businesses to advance there.

In addition to the obligation to accept the Community *acquis* in the four freedoms, the Agreement contains provisions that allow cooperation between the Community and the EEA-EFTA states in a range of Community activities: research and technological development, information services, the environment, education, social policy, consumer protection, small and medium-sized enterprises, tourism, the audio-visual sector, and civil protection.

The final steps in the transition toward a fully modernized financial system were taken in May 2001, when a new Act on the Central Bank of Iceland entered into force. The Act gave instrument independence to the Central Bank, making Iceland the smallest state in the world with an independent monetary policy. An inflation target had been adopted two months earlier through a joint declaration of the Government and the Central Bank, and the bank changed the exchange rate policy of the Icelandic krona from a fixed rate to a floating one.

TABLE 1: MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS

	Year
International Monetary Fund (IMF)	1945
International Bank for Reconstruction and Development (World Bank)	1945
United Nations (UN)	1946
North Atlantic Treaty Organisation (NATO)	1949
Organisation for Economic Cooperation and Development (OECD)	1949
Council of Europe	1950
Nordic Council	1952
International Finance Corporation (IFC)	1956
International Development Association (IDA)	1961
General Agreement on Tariffs and Trade (GATT)	1964
European Free Trade Association (EFTA)	1970
Organisation for Security and Cooperation in Europe (OSCE)	1975
European Bank for Reconstruction and Development (EBRD)	1990
Western European Union (WEU)	1992
European Economic Area (EEA)	1994
World Trade Organisation (WTO)	1995

Source: Central Bank of Iceland

In sum, the reforms carried out since 1979 involved the standard approaches to liberalizing financial markets: reforms at the central bank, the development of securities markets, privatization of the state banks (discussed in more detail below), a diminished role for public investment credit funds, and the liberalization of both short-term and long-term international capital movements.

Membership in the EEA was an important catalyst in stimulating reforms, without which recent growth would have been impossible. Icelandic firms would most likely have internationalized slowly and incrementally, instead of becoming international often from the point of establishment or shortly thereafter.

1.2 Pension Funds

Unlike many other countries, Iceland is not threatened by a looming pension crisis. The reform of the pension system, which began in 1969, has not only been responsible for the stable outlook for future pensions, but also has contributed to the rapid expansion of the economy in the past decade. The pension system in Iceland is chiefly organized around occupational pension funds. Instead of the common "pay as you go" structure, this system is fully funded through accumulated payments.

Many pension funds emerged in 1969 following three-way negotiations to settle general wage disputes among labor unions, the federation of employers, and the state, and became a mandatory part of the new system within a few years. Growth in pension funds' assets took off during the period of 1979 to 1986, when indexation and free interest rates were introduced. Prior to the liberalization of the financial system, the distribution of assets was restricted and pension funds had very few choices for properly investing their funds. The emergence of a new pension system and the liberalization of financial markets had powerful interactive effects. Strong demand by the pension funds for financial instruments, combined with new opportunities for supplying securities, provided the catalyst that in the 1990s triggered a vibrant market for securities in Iceland.

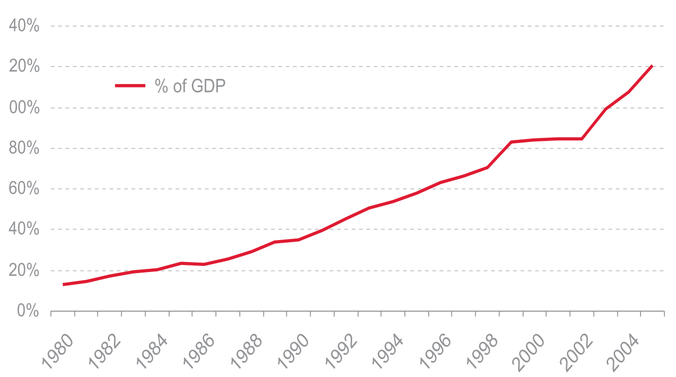


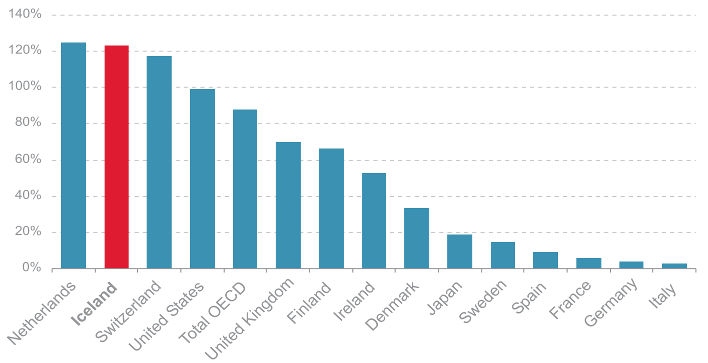
FIGURE 2
PENSION FUND ASSETS GDP RATIO, %

Source: Icelandic Financial Supervisory Authoriy

The pension fund system has gradually been developing into a three-pillar system: firstly, a tax-financed public plan that provides a flat-rate or means-tested basic pension. Secondly, a mandatory occupation or private, but publicly regulated, funded pension scheme. Under the current agreement, approximately 10% of the wages of all private sector employees is transferred to an occupational pension fund, either chosen by the wage earners themselves or by their labor unions. Employers, however, shoulder more than half of the financial burden, providing a minimum of 60% of total contributions. State employees have a similar, though more generous, arrangement. The third pillar is a voluntary pension saving scheme, which offers incentives in the form of complementary contributions from employers.

The total assets of Icelandic pension funds have grown over the past decade to over 120% relative to the country's GDP. This figure grew from 50% of GDP in 1994, despite impressive economic growth over the period. It is estimated that total assets may exceed the equivalent of twice GDP within a decade. A good comparison to Icelandic pension funds' assets is the Norwegian Oil Fund, which has been investing heavily around the globe for several decades now. Indeed, the total assets of the Norwegian Oil Fund are 60% relative to the country's GDP.

FIGURE 3
SIZE OF PENSION FUNDS IN SELECTED OECD COUNTRIES IN 2004, % OF GDP



Source: OECD

Comparing these circumstances to those of other OECD nations, the Icelandic pension system distinguishes itself. It is forecasted that most advanced nations, such as Japan, Germany, the USA, and Italy, will have to increase deposits in pension funds substantially to avoid a pension crisis. In order to achieve a balance, there are only two options: to increase the tax burden substantially (by up to 10%), or to cut down on payments to retired individuals, thereby diminishing their standard of living. With Iceland's strong position in pension funding, contributions to pension funds are not expected to change over the next decades, despite changes in the age distribution of the population.

The Icelandic pension fund system has without a doubt been an important force behind increased FDI by Icelandic companies in recent years. Creating massive savings and liquidity, the funds serve as major investors in most of Iceland's largest companies. Therefore, it is safe to say that not only are a few businesses advancing into foreign markets, but the whole nation, indirectly, through their investments in pension funds.

1.3 International Education

Another significant factor driving the globalization of Icelandic business is the increasing number of individuals seeking their education abroad. The percentage of Icelandic students that enroll in an institute of higher education outside their country of origin is much higher than the OECD average. This is not surprising, since small countries tend to have more motives to interact, both directly and indirectly, with the international community. Iceland's special geographical position, on the northwestern end of Europe, places it between the two giants of Europe and the USA, both providing easy access to both and giving the country an incentive to keep good relations in both directions.

Such trends are to be expected, considering the size of the country and the inevitable shortage of competitive graduate programs that follows. Although it may never reach the same level as in larger economies, the number of domestic educational opportunities has been increasing in recent years.

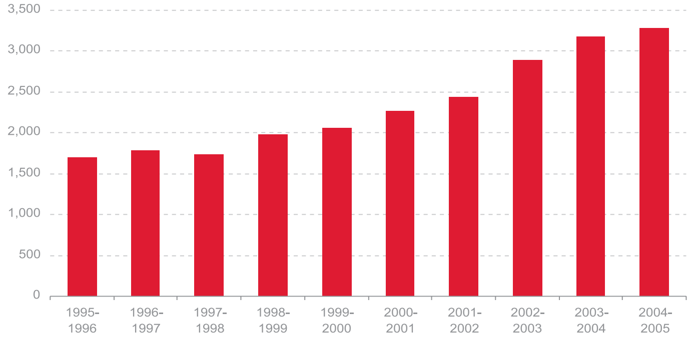


FIGURE 4
ANNUAL TOTAL, UNIVERSITY GRADUATES

Source: Statistics Iceland

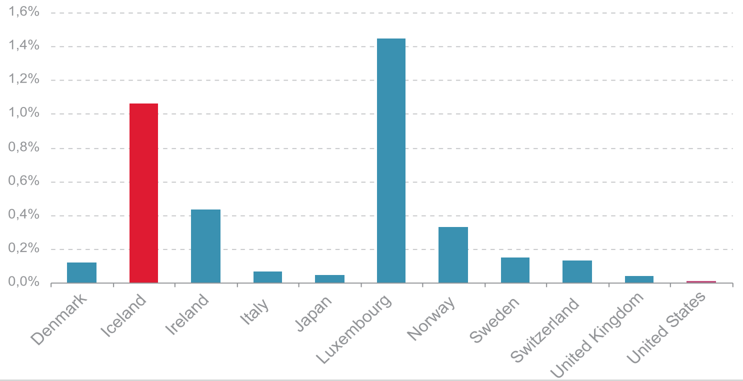


FIGURE 5
NUMBER OF STUDENTS PURSUING TERTIARY EDUCATION ABROAD, % OF POPULATION

Source: OECD

This has not mitigated the demand for education abroad, but rather increased the number of students pursuing higher education (see Figure 4). As a result, the proportion of university graduates in the labor force has grown substantially over the past decade. As Figure 5 illustrates, the proportion of students pursuing their education abroad is higher in Iceland than in most OECD nations. Only Luxembourg, a small country that shares many characteristics with Iceland, sends more students to study in other nations.

Oftentimes, countries that do not offer adequate job opportunities suffer from a Brain Drain, where students that go abroad to study at foreign universities pursue their career in the host country instead of returning home to work. As a consequence, a large proportion of the most qualified individuals are drained from the workforce in these economies. This has not been a problem in Iceland, however, where most students who study abroad return shortly after graduation.

The pension fund system, prior to the emergence of strong financial markets, mitigated the risk of a brain drain in the financial sector, serving an indirect educational function by training investment managers and providing challenging opportunities for young experts. The demand to manage pension funds' assets, as well as the constant need for new financial products, provided many opportunities for a new generation of financial managers, often educated abroad at major business schools

Of the many advantages to having a high number of students seeking their education in other countries, the most important may be the international network that is created among students during the period of study. It is impossible to underestimate the value of having a new group of people in the workforce who are familiar with the new markets and economies of companies moving to foreign countries.

One of the main reasons behind high-tech companies' tendency to globalize earlier and more aggressively than others, is what is considered the "common international experience" of their executives. With global experience and relationships, executives in these firms tend to lead the business world in foreign advancement. These are very similar circumstances to those of the Icelandic companies, profiled in this report, that have been most progressive in their foreign expansion. Most of these companies' executives have extensive international experience, and can therefore be expected to place more emphasis on global operations than would leaders without such experience.

Iceland's high level of international trade has also proved helpful to growth for the same reasons. Business relationships across both imports and exports have turned out to be very helpful for certain businesses advancing to new markets. Additionally, trade in new markets has given Icelandic companies insights into the business culture and structural policies in respective countries. As more students are introduced to foreign countries during their education, the future generation of executives will likely have a stronger foundation from which to pursue economic opportunities abroad.

1.4 Privatization of the Banking System

One of the many changes in the Icelandic economy that created incentives to invest abroad was the privatization of the banking system, which has taken place in earnest over the past decade. The two state-owned commercial banks, Landsbanki and Búnaðarbanki (which later merged with Kaupthing bank), were privatized in stages between 1999 and 2003; FBA (an investment credit fund that later merged with Glitnir Bank) was privatized over the period 1998-1999. Today, the government's participation in financial markets is through mortgage lending institutions, such as the Housing Financing Fund, and a student credit fund.

The parallel development of banks and firms abroad, made possible by the state's efforts at privatization, has proved to be mutually beneficial. As Figure 6 shows, the total assets of the Icelandic banking system, on parent company basis, have grown from approximately 120% of GDP in 2001 to more than 500% at the end of 2006. This figure is high by any standard, and would be even higher if the assets of subsidiaries were included, but it mirrors that of other small countries that have become international financial centres, such as Hong Kong, the Netherlands, and Switzerland[3]. Initially, Icelandic firms' focus on foreign markets encouraged banks to capitalize on the trend by expanding their businesses abroad as well. The banks, with well-established reputations and relationships in the main foreign markets, in turn have been very helpful for Icelandic firms pursuing business ventures abroad. In addition to providing resources to fund projects, the banks' support and business relations have facilitated these ventures. In this context, the international rating of Icelandic banks is a valuable asset, allowing them to give credible reference for Icelandic companies to accelerate transactions, and to underwrite credit facilities when necessary.

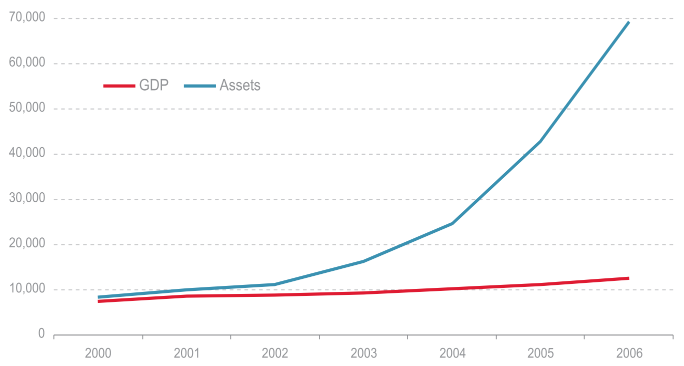


FIGURE 6
BANKING SYSTEM, TOTAL ASSETS* VS. GDP (BILLIONS OF EUR)

*PARENT COMPANY BASIS

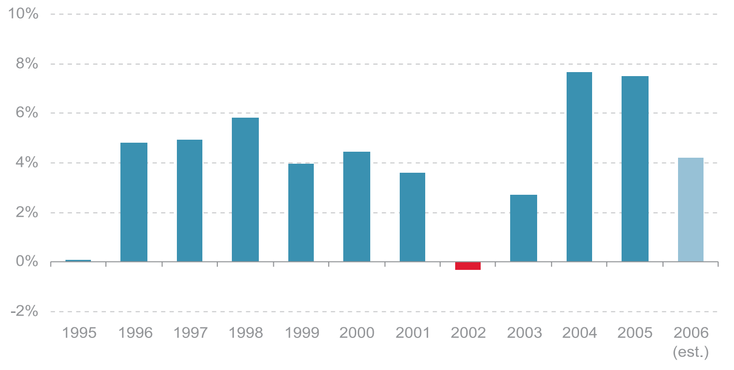
Source: Central Bank of Iceland, Statistics Iceland

3 A more detailed discussion on the expansion of the Icelandic banking system can be found in the report, *Financial Stability in Iceland*.

The banks have gained substantially from this evolution as well; projects supporting foreign ventures have provided opportunities for them to prove themselves in new markets and to show that they are quite capable in the field of investment banking and financial consulting. The expansion process of the Icelandic banks shows that they have predominantly moved to markets where they could serve their Icelandic customers, while at the same time gaining a new customer base. Of course, these projects have also been very profitable in a more direct way, generating substantial royalties and service fees.

Iceland's path from a repressed to a modern market economy is explained by general liberalization of the economy, privatization, the European Economic Area agreement, and a young workforce often educated abroad and trained in a financial market that is disproportionate to the size of the country, due to the extent of wealth in its pension system. The result of these reforms has been a movement toward Iceland's becoming an international banking centre (although on a small scale because the country is, after all, a microstate), where its banks perform financial intermediation, mostly outside the country. By penetrating new markets together, Icelandic corporations and commercial banks have complemented each other, creating a relationship that has undeniably been very helpful for both parties.

FIGURE 7
ANNUAL GROWTH OF GDP %



Source: Ministry of Finance

In addition, economic conditions, both domestic and international, have been extremely promising during the past few years. The ground had been laid for a strong foreign advance with the antecedents mentioned above (membership in the EEA, financial liberalization, strong pension funds, and an internationally-educated workforce). It should not come as a surprise that those dramatic changes, combined with very favorable economic conditions, resulted in a breakthrough in Icelandic business life. Of course, the two are not mutually exclusive. There is no doubt that the structural changes themselves all played a role in the vigorous growth of the Icelandic economy in recent years. During this time, GDP has grown substantially in real terms, and along with it, both real disposable income and productivity. Businesses have been more profitable than ever before, which is reflected by the fast growth in the ICEX-15 stock index, representing a weighted average price of the most valuable companies on the Icelandic Stock Exchange. The growth of Icelandic businesses has not only been extensive externally, but is also attributable to remarkable organic, internal growth.

This has been complemented by historically low global interest rates (due to high savings in Asia and the oil-producing countries, and to decreasing tax rates in the industrialized countries) and reduced credit spreads, creating ideal conditions for the rapid foreign expansion of the business sector.

FIGURE 8
ICEX-15 INDEX

Source: **OMX-The Nordic Exchange in Iceland**

CHAPTER 2

RECENT DEVELOPMENT

Even though expansion has taken place very broadly, a relatively large proportion of Iceland's foreign direct investments can be attributed to several key players. By enumerating the major foreign investments and acquisitions of these companies, it is possible to gain insights on the process as a whole.

This coverage is divided into two sections. The foreign advance of companies that are listed on the Icelandic Stock Exchange is covered in detail in the first section. These are the companies that have made significant foreign direct investments over the period 2001-2006. In the second section, the major foreign investments and acquisitions of the most active privately owned companies are covered. Those companies were chosen for the extent of their investments, as well as due to the critical media attention that some of the acquisitions have received.

Generally, transactions are denominated in the local currency of the country where the acquisition took place. When dealing in currencies that are not commonly traded, amounts have been converted to Euros, at contemporary exchange rates.

Note: Market Capitalization figures are based on stock prices from December 31, 2006.

2.1 Companies Listed On ICEX Active In Foreign Investments

- ACTAVIS
- ALFESCA
- ATORKA
- BAKKAVÖR
- EXISTA
- FLAGA GROUP
- FL GROUP
- GLITNIR BANK
- HF. EIMSKIPAFÉLAG ISLANDS
- ICELANDIC GROUP
- KAUPTHING BANK
- LANDSBANKINN
- MAREL
- STRAUMUR-BURDARÁS
- TEYMI-365
- ÖSSUR

[Note: in Icelandic, the letter ö occurs at the end of the alphabet.]

Company Overview:

Actavis was originally founded in 1956, under the name Pharmaco, as a purchasing alliance by Icelandic pharmacists. A few years later, it began production of its own pharmaceuticals for the domestic market. In 1981, Pharmaco established Delta to manufacture registered pharmaceutical products. A decade later the ties between Pharmaco and Delta were severed because of a conflict of interest, only to merge again in 2002. At that time, the advance on foreign markets had already begun with Pharmaco's acquisition of Balkanpharma in 1999. This deal was a major milestone in Icelandic business history and laid a foreground for what was coming in other industries.

In May 2004 Pharmaco Group changed its name to Actavis Group, aiming to benefit from a single strong brand name. Actavis is derived from two Latin words "acta", meaning action, and "vis", meaning strength. The name is supposed to reflect the attitude and mindset of the company as a whole.

Market Capitalization	EUR 2.38 billion
Change in Share Price, 2006	28.5%
Net After-Tax Profit*	EUR 70 million
*First 9 months of 2006	

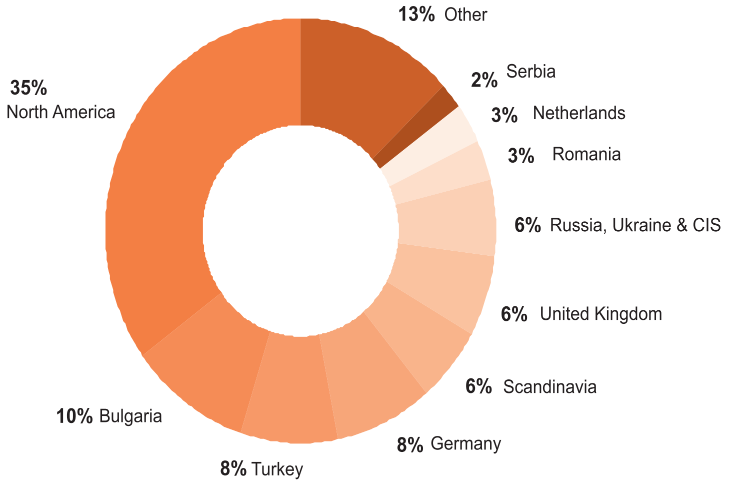
Actavis' expansion process has been both aggressive and fast. For the last decade total sales have grown intensely with multiple acquisitions and market value has grown even faster. So far, the acquisition strategy seems to have been successful and focused. Upcoming years will reveal how well Actavis will succeed in gaining benefits from synergy and integration.

Today, Actavis Group is one of the world's leading players in the field of high-quality generic pharmaceuticals. It is among the world's five largest companies in the industry and shows no intentions of slowing down. The Group, headquartered in Iceland, has 10,000 employees operating in over 30 countries around the globe.

Did You Know?

- Actavis' CEO, Robert Wessman, was only 30 years old when he became the executive manager of Delta, which later merged with Pharmaco. He became the CEO of the united companies after the merger.
- The main shareholder in Actavis, Amber International Ltd., with over 35% of listed shares, is Icelandic billionaire Bjorgolfur Thor.
- Actavis' logo incorporates three symbols: a tablet, the A in the Actavis' name and the world, since it's a global company.
- In 1999, Actavis had only 146 employees and EUR 57 million in annual sales. Today, the company has about 10,000 employees and annual sales of EUR 1.4 billion.

Geographical Income Distribution



Major Foreign Investments and Acquisitions 2001-2006

Pharmamed

Delta hf, which later merges with Pharmaco, acquires Pharmamed, a Maltese generic pharmaceutical company, for USD 10.5 million. The main purpose of the acquisition is to capitalize on beneficial patent legislation and gain access to a more cost-competitive labor market, allowing Delta to transfer some of its production to Malta.

Pharmamed had been pre-owned by a non-profit pharmaceutical company called IDA, whose primary target was to supply UNICEF and Doctors Without Borders with moderately priced medicine. At the time of sale the estimated annual turnover of Pharmamed, which runs two factories, is USD 21 million.

Lotus Laboratories

Actavis announces the acquisition of Indian company Lotus Laboratories along with strategic collaborations with Indian firm Emcure Pharmaceuticals. The company is acquired for a conditional cash consideration of EUR 20 million. Lotus, founded in 2001, has 230 employees at that time and its production process is already approved by the FDA. Actavis hopes, with the acquisition, to advance into the emerging Indian pharmaceutical market as well as to significantly lower the cost base for products aimed at the US market.

Biovena

Actavis acquires the Polish generic pharmaceutical company Biovena. Financial details of this minor acquisition are not disclosed. In addition to extending Actavis' presence in the Polish market, the deal is also seen as a platform from which to register and launch Actavis products.

May 2001	Nov 2002	Dec 2003	Dec 2004	Feb 2005	May 2005

Zdravlje

Pharmaco purchases a 69% share in Serbian pharmaceutical factory Zdravlje with an obligation to buy an additional 15% share in the next three years. The main purpose is to advance further into the middle and Eastern European markets. Pharmaco pays EUR 5.5 million for the 84% stake.

Fako

An 89% stake in the generic pharmaceutical company Fako is purchased for USD 63 million. The remaining 11% will be acquired in January 2006 to complete the purchase. At the time, Fako is the fifth-largest generic drug company in Turkey with over 1200 employees. The main purpose of the deal is to achieve synergy and strengthen the company's market position and advance in the area.

Amide Pharmacautical INC

A milestone in Actavis' history is achieved with the acquisition of Amide Pharmaceutical Inc, a privately owned pharmaceutical company in the US. The acquisition is the biggest so far, with an initial gross consideration of USD 500 million in cash, and an additional USD 100 million payable over two years subject to performance. Actavis finances the acquisition with newly issued shares that raise a total of EUR 250 million and a new 5-year syndicated credit facility of EUR 500 million, arranged and underwritten by ABN AMRO and Bank of America. Part of the financing is used to refinance and restructure existing short- and long-term debt.

With the transaction Actavis achieves a strong presence in USA, as well as a platform from which to launch its products in the world's largest generic pharmaceutical market. A significantly broader product portfolio, with minimum overlap, creates enormous synergy opportunities on both sides of the Atlantic Ocean, securing access for Actavis drugs in USA and Amide drugs in Europe. Amide, founded in 1983 in New Jersey, USA, employs over 200 people at that time and reports revenues of USD 106.7 million with total profit before tax of USD 52.5 million in 2004.

Sep 2005 | Oct 2005 | Mar 2006 | Nov 2006

Higea AD

Actavis Group acquires Higea AD, one of the largest pharmaceutical distributors in Bulgaria for an undisclosed amount, financed through a long-term credit facility. The acquisition intends to enable Actavis to gain foothold in the distribution of pharmaceuticals in Bulgaria. Higea AD, founded in 1995, has over 500 employees at the time. Total annual sales for the year 2005 are expected to be EUR 85 million.

Alpharma INC

Actavis makes its largest acquisition so far when it acquires the human generics business of the international pharmaceutical company, Alpharma Inc. The deal represents a significant milestone, placing Actavis among the top 5 global generics players. Alpharma is acquired for a total consideration of USD 810 million in cash. Financing is achieved through a EUR 808 million 5-year Term Loan Facility and a EUR 250 million 5-year Revolving Credit facility, both underwritten solely by UBS. In addition, a placement of EUR 354 million equivalents in Preferred Shares is conducted. Part of the financing is used to refinance and restructure existing short- and long-term debt.

The acquisition provides extensive synergy and creates a strong followup on the Amide deal, strengthening Actavis' position in the US market and establishing a local presence for Actavis-label products in key European markets, of Germany, the UK, and Scandinavia. The enlarged Group benefits from a broader portfolio, with Alpharma products gaining access to Actavis markets and vice versa.

Alpharma, founded in Norway in 1903, employs approximately 2,800 people at the time of acquisition. The company is the one of eight largest generic pharmaceutical companies in the US, the fourth largest in the UK, and has a strong position in Scandinavia, the Netherlands and Portugal. Total revenue on the first half of 2005 is EUR 379 million.

Sindan

A leading European pharmaceutical company, Sindan, is acquired for a total consideration on a debt-free basis of EUR 147.5 million, paid in cash. At the time Sindan has a cash balance of EUR 14 million. The acquisition provides Actavis with access to a new therapeutic field, oncology, as well as a strong marketing and distribution network in important markets. Sindan, established in 1991, employs over 200 people and has successfully entered export markets around the globe. Total revenue in 2005 is approx. EUR 68 million.

ZiO Zdorovje

Actavis purchases a majority stake in Russian pharmaceutical manufacturer, ZiO Zdorovje, for EUR 47 million, of which EUR 23 million will be invested in the business. The consideration is paid from Actavis' existing committed bank facilities. Having failed to acquire Pliva, increasing market presence in the fast growing Russian market is even more important. In addition to an increased presence, the transaction enables the company to transfer some production to Russia. ZiO Zdorovje, established in 2001, has around 140 employees and a forecasted revenue of EUR 21 million for 2006.

Abrika Pharmaceuticals

Actavis arranges the acquisition of Abrika Pharmaceuticals Inc, for an initial purchase price of EUR 85 million, paid in cash from additional debt facilities. The total consideration could reach EUR 181 million, as EUR 96 million is arranged subject to performance. The acquisition supports Actavis' position in development of CR (controlled release) products. Limited competition and high manufacturing standards have led to higher and more durable margins here than in other segments of the generics markets which make the acquisition attractive. Abrika, established in 2002, is based in Fort Lauderdale, Florida. The company has approximately 40 employees and is forecasting revenues of EUR 20 million for 2007.

Major Foreign Investments and Acquisitions 2001-2006

Jun 2002

Servifrais, Pêcheries de Fécamp

SÍF acquires equipment and operations of the bankrupt estates of French seafood producers Servifrais and Pêcheries de Fécamp in cooperation with key employees of the defunct companies. Along with equipment, SÍF appropriates all brand names and business relationships. The companies had been running losses and had finally announced their bankruptcy in April. The total number of employees at the time of the acquisition is 400 with gross revenue for 2001 of EUR 63 million. The acquisition strengthens SÍF's position in France in the value-added seafood production market, especially considering that Servifrais and Pêcheries de Fécamp are among the main competitors in the sector. Financial details of the transaction are not disclosed.

Jul 2003

Lyons Seafoods, Ltd.

SÍF acquires British company Lyons Seafoods, Ltd. for a total consideration of GBP 14 million. The acquisition is an important part of the SÍF Group's strategy to strengthen its position in the market for value-added seafood in key countries, to ensure access to retail distributors, and to build up its brands and engage in product development. Lyons Seafoods, founded in 1958, specializes in chilled seafood and processed shellfish products. Gross turnover in 2002 was GBP 61 million with an EBITDA of GBP 2.8 million.

Oct 2004

Labeyrie Group

The most important step on SÍF's path of changing their focus towards producing chilled premium festive and convenience food for European markets is accomplished with the acquisition of the French Labeyrie Group. Total consideration for the company is EUR 360 million, which SÍF finances by selling off Icelandic assets such as the Iceland Seafood Corporation, securing a new syndicated loan and a issuing a large quantity of new shares. Part of the funding is used to refinance the company's existing debts. Labeyrie, which was founded in 1946, operates six production plants in France, Spain, and Scotland and employs approximately 2,400 people.

Jul 2006

Sale of Delpierre

Alfesca finalizes the sale of the frozen division of Delpierre to Icelandic Group. SÍF had acquired French value-added seafood producer Jean Baptiste Delpierre in 1998, but following the strategic decisions taken by Alfesca in 2003, the frozen division of Delpierre did not provide significant opportunities to streamline the production and sale of chilled, ready-to-eat products in the European market. The sale price of EUR 17 million encompasses factories, equipment and business relationships.

Company Overview: Alfesca

Alfesca hf traces its roots back to 1932, when the three largest Icelandic producers of salted fish, along with the Icelandic banks, established the Union of Icelandic Fish Producers (SÍF). With the help of provisional legislation, SÍF succeeded in persuading more than 90% of producers to join the union.

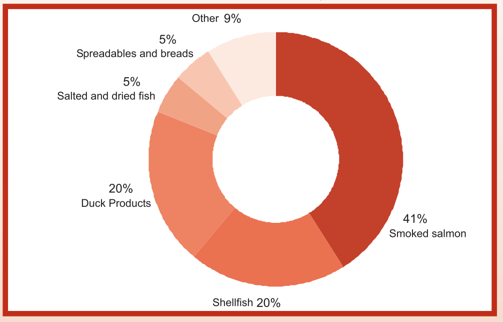
Market Capitalization	EUR 332 million
Change in Share Price, 2006	24.4%
Net After-Tax Profit*	EUR 12 million

*1 July 2005 - 1 June 2006

Sustaining the establishment of SÍF was the need, felt by Icelandic seafood processors and successive governments, for a unified marketing strategy that would have proven very tough for individual players to achieve during the Great Depression. This arrangement proved very long lasting and wasn't reformed for decades, giving the Union a monopoly in the salted fish market.

But changing attitudes in the business environment in the 1980s led to the abolition of the Union's monopoly. Following that change, SÍF was incorporated as a limited liability company in 1992. During the next decade, the company maintained a strong position in its original markets while evolving into other areas as well.

Total Sales, 2006



In 2003, SÍF's Board of Directors decided to put added emphasis on food production in Europe and to separate its manufacturing and trading activities. As part of this new strategy, considerable changes were made to the organization of SÍF Group.

Trading activities of the SÍF Group were transferred to a separate corporate entity, Iceland Seafood International, which was founded in March of 2005. Production activities were given a new name, Alfesca, which was defined as a European food producer focused on producing chilled premium festive and convenience food. Later in 2005, SÍF sold its entire holdings in Iceland Seafood International. As a result, SÍF's balance sheet strengthened considerably, since its liabilities were reduced by about 63 million Euros.

Did You Know?

- The name "Alfesca" is made from words in Latin and Greek. Alpha is the first letter in the Greek alphabet, the Latin word festivus means "festive" and esca is a Latin root relating to food. The resulting combination gives the name "Alfesca."
- Alfesca's Chairman of the Board, Ólafur Ólafsson, is also Chairman of the Board of Samskip.
- Alfesca (SÍF at the time) made its first investment outside of Iceland in 1990 when it acquired the French salted fish processor, Nord Morue.

Today, Alfesca operates eleven production facilities in three countries: France, Spain and Britain, and has around 3,500 employees. The company's head- quarters are located in Iceland.

Major Foreign Investments and Acquisitions 2001-2006

Jul 2004 — Low & Bonar

Atorka Group starts acquiring shares in the international specialist material producer Low & Bonar. Over the year 2004, the company accumulates an 18.1% stake in the company.

Dec 2004 — NWF Group

Over the year, Atorka acquires a 9% share in the British holding company NWF Group. In the following two years, this stake will be increased to approximately 20%. NWF comprises four separately managed divisions: distribution, feeds, fuels, and garden centres.

Jul 2005 — Bonar Plastics

Promens, a subsidiary of Atorka Group, concludes an agreement with Low and Bonar PLC to purchase its plastics division, Bonar Plastics, which specializes in plastic rotational moulding.

Nov 2005 — Romag Holdings PLC

Atorka Group acquires a 3.8% share in British industrial producer Romag Holdings Plc. Over the year 2006, the company increases its share in the British producer to its current stake of approximately 13%. The company produces specialized glass such as bulletproof glass and photovoltaic glass.

Mar 2006 — Interbulk Investment

Atorka Group acquires 23% of Dutch tank container operator Interbulk Investment, the third largest corporation, globally, in chemical container transport. The transaction makes Atorka Group the second largest shareholder in Interbulk.

Apr 2006 — Elkhart Plastics Inc.

Promens hf acquires Elkhart Plastics Inc (EPI), which runs four factories in the USA. The purchase doubles the size of Promens in North America.

Apr 2006 — Sale of Low & Bonar

Atorka sells all of its shares in Low & Bonar plc to private investors. The company had increased its share in the company to approximately 23% over the previous months.

Apr 2006 — Amiad Filtration Systems Ltd.

Atorka Group acquires shares in Amiad Filtration Systems Ltd, a manufacturer of water filtration equipment and filters for industry and public irrigation projects. Atorka currently owns approximately 14% of the Amiad shares.

Dec 2006 — Polimoon ASA

Promens hf acquires Norwegian plastic producer Polimoon ASA. Polimoon manufactures a wide range of packaging products for the consumer, chemical, medical and food industries, as well as components for the automotive and electronic industries.

Company Overview:

Atorka Group was originally founded as an equity fund in 1990, named The Icelandic Equity Fund. In 1992, the Fund became one of the first companies to be listed on the Icelandic Stock Exchange.

The name of the company was changed to Atorka Investment Company in 2003, and again in 2005, to Atorka Group hf. In 2004, Atorka took over three companies, Líf hf, Afl Investment Company hf, and Sæplast hf. The same year, Atorka changed its investment policy, placing further emphasis on foreign investments.

Market Capitalization	EUR 244 million
Change in Share Price, 2006	7.8%
Net After-Tax Profit*	EUR 60.3 million
*First 9 months of 2006, on parent company basis	

Also in 2005, Promens hf was founded as a subsidiary of Atorka Group hf, with the objective of sharpening the aims set for the operations of Sæplast. Promens hf made an agreement to purchase Bonar Plastics plc, which was one of three units of Low & Bonar. With this purchase, the company grew considerably, becoming the largest producer of rotating mould plastics in the world and leading the global market in product evolution. All companies acquired by Promens currently operate under the Promens name.

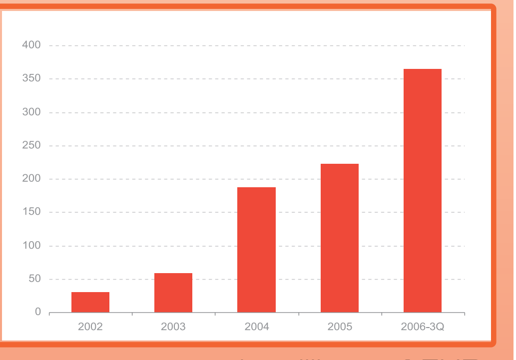
Today, Atorka is an investment company, listed on the Iceland Stock Exchange and included in the ICEX-15 index, which supports progressive enterprises that wish to take advantage of worldwide developments, assisting those companies in becoming global leaders. In its investments, Atorka seeks out companies that have sound operations and strong management and possess the potential for substantial internal and external growth. The Company targets projects with considerable potential for growth and value enhancement, aiming at investments for periods of 3-5 years.

Did You Know?

- Promens' turnover has increased from EUR 20 million to EUR 720 million in two years.
- *Atorka* is the Icelandic word for dynamism and power.
- Atorka recently received an award from the Icelandic Accociation of Women Entrepreneurs for its policy in relation to female participation at the executive level.

Atorka is currently working on three private-equity projects: in the plastics industry, geothermal sector, and health care. Promens is one of the leading plastic production groups in the world and the largest in rotational molding. The company operates 60 plants in 20 countries in Europe, North America and Asia. Jarðboranir hf (Iceland Drilling) is an international market leader in accessing geothermal resources and specializes in the exploitation of earth resources, the processing of earth material, land reclamation and construction.

ASSETS



in millions of EUR

Atorka has three companies in the health care and corporate markets: Icepharma, which is a leading marketing company of healthcare products in Iceland, Parlogis, which provides logistics services for the healthcare sector in Iceland, and A.Karlsson, which offers a wide range of products for the corporate and institutional market. A subsidiary of A. Karlsson, Ilsanta, is a marketing and service company in the health care sector that operates in the Baltic States.

BAKKAVÖR

Company Overview:

Bakkavör was founded in August 1986 by two brothers: Ágúst Gudmundsson and Lýdur Gudmundsson. In the beginning, operations were primarily focused on processing and exporting cod roe to Scandinavia. Ten years later, the company had become a medium-sized Icelandic company and had reached its goal of manufacturing and selling fully-processed goods directly to European retailers.

The year 2000 represented a turning point for Bakkavör Group. The company was listed on the Icelandic Stock Exchange (now the OMX Nordic Exchange in Iceland) and announced that it would change its strategic focus from seafood to fresh prepared foods. The fresh prepared foods market was the most dynamic segment of the food industry and therefore represented an excellent growth opportunity. The final step in the transition was taken in 2003 when Bakkavör sold the seafood part of its operations.

Market Capitalization	GBP 984 million
Change in Share Price, 2006	21.3%
Net After-Tax Profit*	GBP 67.6 million
*Full year 2006	

Today, Bakkavör Group is the largest provider of fresh prepared foods and produce in the UK, and develops and produces meal solutions under its customers' own brands. Its key customers are food retailers (mainly in the UK, but also in Continental Europe and China). The Group manufactures 4,700 products in 17 product categories, such as ready meals, pizzas, convenience salads and leafy salads.

The Gudmundsson brothers have successfully managed Bakkavör Group's growth through its 20-year history and they are still the Group's largest shareholders through their ownership of Exista hf, which owns the single largest stake in Bakkavör Group.

Did You Know?

- Bakkavör is the name of the street where Ágúst and Lýdur Gudmundsson grew up.
- Although Bakkavör's roots are in Iceland and it is listed on the OMX Nordic Exchange in Iceland, only nine people work for the company in Iceland and none of its revenue is generated there.
- Bakkavör uses 82 tonnes of chocolate in its desserts a year.

Share Performance, 2001-2006

Price Per Share in ISK

Major Foreign Investments and Acquisitions 2001-2006

Katsouris Fresh Foods LTD

The acquisition of British food producer Katsouris Fresh Foods Ltd is a major milestone in Icelandic business, as it is the largest acquisition ever executed by an Icelandic company, with a total consideration of GBP 102 million. The transaction is financed with a GBP 32 million equity issue, convertible bonds for GBP 20 million and a GBP 50 million senior loan provided by three British banks. The acquisition allows Bakkavör to gain a stable foothold in the British fresh prepared foods market, in line with the company's shift in focus to fresh prepared foods.

Katsouris, founded in 1982, produces a variety of fresh prepared food products, primarily for British retail stores Tesco and Marks & Spencer. The former owner of the company, the Katsouris family, becomes a principal shareholder in Bakkavör with the shares gained from the sale.

Hitchen Foods PLC

Bakkavör Group acquires Hitchen Foods PLC, a UK manufacturer of fresh cut vegetables and convenience salads. Total consideration for the company is GBP 44 million, paid for with a loan from Kaupthing Bank (and later refinanced with Barclay's). Hitchen Foods is a family business established in 1961 that employs around 750 people at the time. For 2005, the company's EBITDA is expected to amount to GBP 8.5 million and turnover to total around GBP 48 million.

Nov 2001	Mar 2005	Oct 2005	Mar 2006

Geest PLC

Another major acquisition is undertaken with the purchase of a leading British fresh prepared food company, Geest PLC, for GBP 623 million. Barclays provides a GBP 450 million loan for the acquisition and Kaupthing Bank a loan for GBP 75 million. The acquisition places Bakkavör Group in a leading position on the UK fresh prepared foods and produce markets, providing considerable opportunities for utilizing economies of scale.

Geest PLC, founded in 1935, is one of the largest fresh prepared foods companies in the UK at the time and operates 38 factories in five countries, employing approximately 10,000 people. The company's EBITDA in 2004 amounted to GBP 74.9 million and turnover totaled GBP 902.5 million.

Creative Food

Bakkavör Group acquires a 40% share in Creative Food, a Chinese salad manufacturer, in co-operation with Glitnir bank, for an undisclosed sum. In order to facilitate this transaction and future investments in China, Bakkavör and Glitnir establish a new company, Bakkavör China, of which Bakkavör holds a 60% stake and Glitnir 40%.

Apr 2006

New Primebake

Bakkavör Group acquires a UK chilled bread manufacturer, New Primebake, for an undisclosed amount financed through the Group's own cash resources. The transaction widens the Group's product portfolio while enabling the more efficient use of existing capacity. New Primebake, established in 1989, had performed well in previous years, reporting EBITDA of approximately GBP 3.0 million in 2005 with turnover totaling GBP 33.4 million.

May 2006

Laurens Patisseries

Bakkavör Group makes another large acquisition, of British chilled desserts manufacturer Laurens Patisseries. A total consideration of GBP 130 million is financed through an issue of new shares for GBP 30 million and a loan from Barclays of GBP 155 million. The new shares are allotted to Laurens Patisseries's previous owners. Laurens supplies major UK retailers under their own brands and employs approximately 1,200 people. In 2005 Laurens' reported turnover is GBP 75 million and since 1999 has achieved a 25% compound annual growth rate of sales.

Nov 2006

Fresh Cook Limited

Bakkavör Group acquires the remaining 50% of the issued share capital of Fresh Cook Limited, a manufacturer of 'ready to cook' meals, which Bakkavör Group and Rannoch Foods had operated as a 50:50 joint venture business since October 2004. The consideration price, which remains confidential, is financed through the Group's own cash resources. Fresh Cook is based in Lincolnshire and employs approximately 360 people.

Rye Valley Patisserie

Bakkavör Group further strengthens its position in the UK chilled dessert and cake market through its acquisition of Rye Valley Patisserie. The confidential consideration price is financed through the Group's own cash resources. The size of the transaction is relatively small. Rye Valley Patisserie employs around 250 people.

Company Overview:

Exista, a financial services company, was established in 2001, though some of the individual firms that make up the group have a considerably longer history. Its insurance operation traces its roots back to 1917, and the group's asset finance business was founded in 1986.

Regarding its investment activities, Exista is the largest shareholder in Kaupthing Bank, with a 23.3% stake, in Bakkavör Group (UK food producer), with a 38.3% stake, and in Iceland Telecom, with a 43.6% stake. In addition to these, the group has a number of other short- and long-term investments in its portfolio.

Market Capitalization	EUR 2.71 billion
Change in Share Price, Since IPO*	4.7%
Net After-Tax Profit**	EUR 270 million
*15 Sep 2006 **First 9 months of 2006	

Exista was listed on the Iceland Stock Exchange in September 2006 and is currently one of the largest companies in Iceland in terms of equity. The group, including all subsidiaries, has over 400 employees, most of who work in the insurance and asset financing divisions.

Exista, with headquarters in Reykjavík, has set up an office in London, which plays a key role in exploring growth opportunities and investments outside of Iceland. These opportunities provide the primary reason for its inclusion in this report. Exista's presence in foreign markets is likely to be significant in the upcoming years.

Did You Know?

- Erlendur Hjaltason, the CEO of Exista, is the Chairman of the Board of Iceland Chamber of Commerce.
- Exista was originally established by a group of Icelandic savings banks.
- Exista is the newest member of the ICEX-15-index, a weighted average of the 15 largest companies on the Icelandic Stock Exchange.

FLAGA GROUP

Company Overview:

Market Capitalization	USD 27.5 million
Change in Share Price, 2006	-44%
Net After-Tax Profit*	USD -1.4 million
*First 9 months of 2006	

Flaga Group began under the name Flaga hf, a sleep-diagnostics equipment company, in 1988. However, the company did not commence formal operations until 1993, hiring its first employees in 1994 and making its first equipment sales the following year.

In 1999, Flaga formed a strategic alliance with the US firm ResMed Inc, a company specializing in the development, manufacturing, and distribution of therapy devices for sleep-disordered breathing. This alliance enabled Flaga and ResMed to offer their customers a complete product range including both sleep diagnostics and associated therapy from one source.

Flaga acquired another sleep-diagnostics firm, Medcare Diagnostics, in 2002 as a way to expand into North America; the name of the company was then changed to Medcare Flaga, creating the largest company in the world focused on sleep diagnostics. In November 2003, shares in Medcare Flaga were listed on the Main List of the Iceland Stock Exchange.

In 2004, Medcare Flaga acquired the company SleepTech LLC, which specializes in operating hospital-owned sleep centers in the United States. A year later, Medcare Flaga became a holding company and changed its name to Flaga Group. Today, the company is a significant participant in the sleep market, covering a broad spectrum of sleep medicine. Flaga Group owns and oversees the operation of Embla (previously Medcare), a global participant in the diagnostic-equipment market, and SleepTech, a large provider of sleep disorder diagnostics and treatment services.

Did You Know?

- Flaga is the Icelandic word for chip.
- Bogi Pálsson, Flaga Group's Chairman of the Board, was the chairman of the Iceland Chamber of Commerce between 2000 and 2004.
- According to research, 1 out of every 5 individuals suffers from a sleep disorder.

Major Foreign Investments and Acquisitions

Medcare Diagnostics - Sep 2002

Flaga acquires Medcare Diagnostics for a total consideration of USD 16 million, financed through long-term credit facility, revolving credit facility and short-term loans that are later refinanced with an issue of new shares. The acquisition provides extensive synergy, with limited overlap, allowing Flaga to introduce their products in Medcare markets and vice versa. Medcare, founded in 1997 as a family firm, grew rapidly from its inception. Estimated turnover in 2002 is USD 16 million with a pretax profit of USD 1.8 million. After the acquisition, the name of the company is changed to Medcare Flaga.

SleepTech LLC - Jun 2004

Medcare Flaga acquires US firm SleepTech LLC, which specializes in operating hospital-owned sleep centers. Consideration is USD 21.5 million, with an extra USD 5 million offered subject to performance, and is financed with a combination of existing shares and cash from an issue of new shares. The purchase adds sleep center operation to Medcare Flaga's portfolio, increasing its presence in the US market for sleep-diagnostic services. Gross turnover in 2003 had been USD 8.5 million, with an after-tax profit of USD 2.6 million.

FL GROUP

Company Overview:

The history of FL Group and its predecessors dates back to 1937 when an airline, Flugfélag Akureyrar, was founded in Akureyri on the north coast of Iceland. In 1943, the company moved its headquarters to Reykjavík and changed its name to Flugfélag Íslands. One year later a second airline, Loftleiðir, was formed as a private venture by three pilots.

In 1973, the airlines teamed up under a holding company called Flugleiðir, which owned both Loftleiðir and Flugfélag Íslands. This company took over all assets of both companies in 1978, using the name Icelandair for international marketing. Until then, Loftleiðir had used "Loftleidir Icelandic," "Icelandic Airlines," or simply "Icelandic" for marketing purposes, and Flugfélag Íslands had used "Icelandair."

Market Capitalization	EUR 2.2 billion
Change in Share Price, 2006	30.4%
Net After-Tax Profit*	EUR 476 million
*Full year 2006	

In the year 2000, airline services were spun off into a wholly owned subsidiary, called Icelandair, and Flugleiðir became a holding company comprising a number of companies in the aviation and tourism industries. This arrangement lasted until 2005, when Flugleiðir was changed to an investment company named FL Group, representing a strategic shift toward a focus on investment operations.

In November 2005, FL Group issued new shares for a total market value of EUR 60 million in a public offering. Investors signed up for four times the amount offered; this new equity increased the financial capacity of FL Group substantially and allowed it to progress to its current status, operating strictly as an investment company. The Group focuses its investment activities in two fields: Private Equity and Strategic Investment on one hand and Proprietary Trading on the other.

FL Group's target is to invest, for the most part, in companies outside of Iceland, focusing primarily on the Nordic countries and the UK. It has set up offices both in Denmark and the UK to meet this focus.

Did You Know?

- Hannes Smárason, FL Group's CEO, was the deputy CEO of Decode Genetics, the Icelandic genetic research company, before he became a private investor and later CEO and largest shareholder of FL Group.
- Direct translation of FL Group's former name, Flugleiðir, is "flight ways," though the name was conceived as a hybrid of the names of its predecessors, Loftleiðir and Flugfélag Íslands.
- Flugleiðir used to be called the "lens of the Icelandic Nation."

Major Foreign Investments and Acquisitions 2001-2006

Oct 2005

Sterling

Danish low-cost airline Sterling, which includes the airline component of Maersk, is acquired for a consideration of DKK 1.5 billion. A total of DKK 400 million is paid with shares in FL Group and the rest with available funds. The acquisition follows the company's focus on seeking profitable investments in the Nordic region. Sterling, founded in 1994, is the largest low-cost airline in the Scandinavian area. Annual turnover in 2004 had been reported as DKK 3.5 billion, but the business had been unprofitable for several years before the time of the acquisition.

Jan 2006

Finnair

FL Group acquires a 3.7% share in Finnish airline Finnair. The company had previously acquired a 2.4% share in the company through its subsidiary, FL Investment, and will continue acquring shares over the year 2006.

Feb 2006

Royal Unibrew A/S

FL Group acquires a 16.4% stake in Danish brewery Royal Unibrew A/S for a total consideration of DKK 540 million. Royal Unibrew is the second-largest brewer in the Scandinavian area, with over DKK 3 billion in turnover during 2004. FL Group continues to invest in the company and owns 24.4% at the close of the third quarter.

Bang & Olufsen

FL Group acquires a 10.1% share in Danish electronic device producer Bang & Olufsen for an estimated consideration of DKK 80 million. The company had set its focus on the Nordic area, with special emphasis on Denmark.

Aktiv Kapital

FL Group acquires 10.3% of shares in the Norwegian financial service company Aktiv Kapital. Estimated consideration for the purchase is NOK 550 million. Aktiv Kapital specializes in debt collection and has over 900 employees in 11 different countries. Total income in 2005 had been NOK 1.43 billion, with an after-tax profit of NOK 250 million.

NOTE: COVERAGE CONTINUES ON NEXT PAGE

Refresco Holding

FL Group acquires a 49% share in Dutch beverage producer Refresco Holding for a total consideration of EUR 230 million. Other investors participate in the acquisition, purchasing the remaining 51%. According to FL Group, the objective of the transaction is to diversify its investments, both across sectors and geographically. Refresco runs operations in five different countries and employs approximately 1,200 people. Turnover in the year 2005 is reported as EUR 606 million, with EBITDA of EUR 64.1 million.

Apr 2006

easyJet

A 16.9% share in British low-cost airline easyJet, acquired in 2005, is sold for a total consideration of GBP 220 million, netting an estimated profit of GBP 88 million. The sale reflects FL Group's policy to demonstrate active asset management, taking profit when appropriate.

May 2006

French Connection UK

FL Group acquires a 5.1% stake in the British fashion retailer, French Connection, for an estimated consideration of GBP 10 million, and increases its share over the following months. In July, the company's shares in the fashion retailer become property of the holding company Unity Investments, in which FL Group owns 37.5% along with Baugur Group and businessman Kevin Stanford. Unity Investments focuses primarily on investment opportunities in British retail markets.

Aug 2006

House of Fraser

FL Group joins a consortium that acquires all shares in British fashion retailer House of Fraser. Total consideration for the shares is approximately GBP 351 million, representing an enterprise value of approximately GBP 453 million. The acquisition is made through an investment vehicle, Highland Acquisitions Limited, in which FL Group owns a 13.9% stake. The investment fits FL Group's strategic focus to establish a significant private equity brand within the European market and build influential investments in both listed securities and private business.

House of Fraser is one of Britain's biggest retailers of designer brands. It operates 61 department stores across the UK and Ireland under several trading names. For the year 2005, House of Fraser had reported gross sales of GBP 910.2 million and a profit before tax of GBP 26.1 million.

Oct 2006

Sale of Icelandair Stake

All of the shares in Icelandair Group are sold for a consideration of ISK 35 billion for a realized profit of ISK 26 billion. Icelandair Group makes IPO and is listed on the Icelandic Stock Exchange.

Dec 2006

Finnair

FL Group acquires 10.7% of Finnish airline Finnair as a part of a large deal involving the sale of shares in Straumur-Burðarás Investment bank. Total consideration for the transaction is approximately EUR 12 million. The company had been acquiring shares in the airline over time and now has close to 23% of shares in Finnair.

At the same time, FL Group announces the signature of a three-year Equity Finance Facility with Barclays Capital for up to EUR 400 million. This means that in 2006 alone, FL Group has arranged over EUR 1 billion in funding and available facilities from international banks.

Dec 2006

AMR Corporation

FL Group acquires a 6% stake in AMR Corporation, making it the third-largest shareholder in the world's largest airline. FL Group had been building up its stake for a considerable period of time. The total value of the investment exceeds USD 400 million. AMR's American, American Eagle and AmericanConnection® airlines serve 250 cities in over 40 countries with more than 4,000 daily flights. The combined fleet numbers over 1,000 aircraft. The first 9 months of 2006 bring AMR Corp. profits totaling USD 214 million. Its total turnover for the same period is USD 17.2 billion.

Consolidation of Northern Travel Holding

FL Group sells its shares in Sterling Airlines for a consideration of EUR 210 million to a newly established company, Northern Travel Holding, of which FL Group owns 34%. The consideration is paid with EUR 63 million in cash and EUR 150 million in the form of a three-year shareholder loan.

Northern Travel Holding is funded with a mixture of debt and equity, the former valued at EUR 121 million. Along with Sterling Airlines, Northern Travel acquires all shares in Iceland Express, 51% of shares in Astraeus, all shares in Hekla Travel and approximately 30% of outstanding shares in Ticket. Estimated turnover of the companies forming Northern Travel will be around EUR 1,260 million in 2006.

Company Overview:

Glitnir's history reaches back to 1904, when Íslandsbanki was established by an act of parliament as Iceland's first limited liability bank. According to the act, the primary goal of the bank was to facilitate progress in commerce, fisheries, agriculture, and industry, and to improve access to finance.

Glitnir Bank in its present form emerged in May 2000, through the merger of Íslandsbanki and FBA, the Icelandic Investment Bank. At the time, the merged company Íslandsbanki-FBA (which became Íslandsbanki in 2001) was the largest on the Icelandic Stock Exchange. Today it is the second largest, with only Kaupthing bank having a higher market value.

Market Capitalization	EUR 3.7 billion
Change in Share Price, 2006	29.4%
Net After-Tax Profit*	EUR 416 million
*Full year 2006	

In March 2006, Íslandsbanki rebranded to Glitnir, adopting a new logo and look. (Note: in the timeline of acquisitions and major investments contained in this profile, the bank will be referred to as Glitnir Bank even when the particular transaction took place prior to the name change.)

Glitnir's two predecessors had also been subject to mergers of several financial institutions in the 1990s. In January 1990, Íslandsbanki was merged with three other banks, which constituted an essential step in the restructuring of the banking industry in Iceland. Prior to the merger, three of the four banks were held by sector industry groups. FBA was established in January 1998, when three state-owned investment credit funds merged. The bank was privatized in 1998 and 1999.

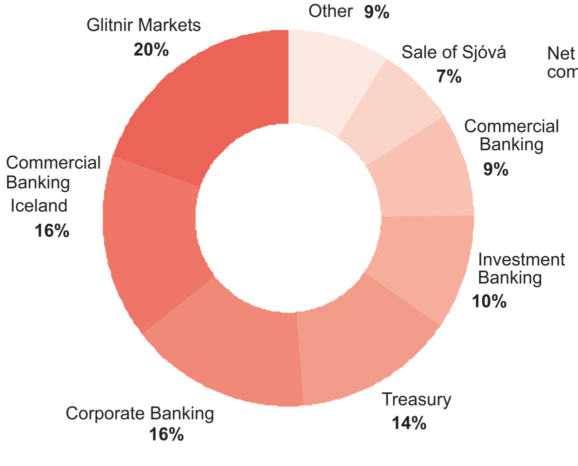
The bank has gone through extensive changes in recent years, having evolved from an Icelandic bank into an international financial company which operates in eight countries: Iceland and Norway, which are defined as the bank's home markets, and the UK (London), Luxembourg, Denmark (Copenhagen), Sweden (Stockholm), Canada (Halifax) and China (Shanghai).

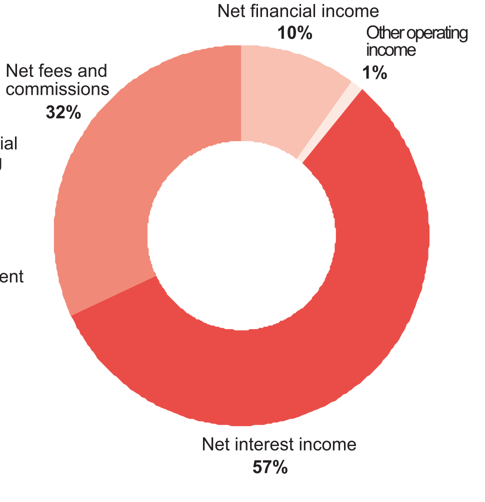
Did You Know?

- Glitnir bank was the first commercial bank to be listed on the Iceland Stock Exchange in 1993.
- In Norse mythology, Glitnir is the home of the god Forseti. According to legend, everyone who visited his hall left happy and with conflicts resolved.
- In August every year, Glitnir is the proud sponsor of the Reykjavik Marathon. Glitnir's CEO Bjarni Ármannsson finished the full marathon in the past two events. Glitnir now also sponsors the Copenhagen and Oslo marathons.

Profit Across Income Types and Activities*

38% of profits generated outside of Iceland





*First 9 Months of 2006

Major Foreign Investments and Acquisitions
2001-2006

KredittBanken AS

Glitnir Bank acquires Norwegian KredittBanken AS for a consideration of NOK 350 million. Although Glitnir's takeover bid is approximately 30% above market price, the price is justified by the bank's net asset value, close to NOK 380 million. The transaction marks Glitnir's first entry into the Norwegian market, today one of its primary centers of operation. Kredittbanken, now Glitnir Bank AS, is operated as a subsidiary.

Aug 2004

BNbank

The Norwegian bank Bolig- og Næringsbanken ASA (BNbank) is acquired for a consideration of NOK 3.3 billion, financed through a combination of subordinated debt and an equity issue. Like KredittBanken, BNbank is maintained as a separate entity. The acquisition is a part of Glitnir Bank's strategy of creating a strong Icelandic-Norwegian banking group. With its strong performance and solid track record, BNbank is expected to contribute significantly to Glitnir Bank's future performance. At the same time, the transaction enables risk to be diversified through a broader loan portfolio.

BNbank is a corporate and retail-focused mortgage bank, ranked as the fourth largest commercial bank in Norway at the time of acquisition. Net profit for the first nine months of 2004 is NOK 163 million.

Nov 2004

FactoNor AS

Glitnir Bank acquires FactoNor AS, now Glitnir Factoring, a financial firm that specializes in factoring for small and medium-sized companies. Total consideration for the purchase is NOK 52.8 million. The strategic rationale behind the acquisition is to broaden the basis of Glitnir Bank operations and to join forces in marketing and product distribution. Glitnir Factoring had shown strong and steady growth in prior years, with a pre-tax profit of NOK 4.6 million in 2004.

Apr 2005

Norse Securities

Glitnir acquires the Norwegian brokerage firm Norse Securities. The acquisition allows Glitnir to penetrate the Norwegian securities market and brokerage sector, and strengthens the bank in the areas of capital markets, structured products, corporate finance and real estate financing. Norse Securities, now Glitnir Securities, has operated as a brokerage firm since 1973 and employs 47 people at the time of acquisition. The company is expected to generate total revenues of NOK 130 million in 2005.

Nov 2005

UNION Group

Mar 2006

Glitnir bank acquires a 50.1% share in Norway's largest commercial real estate brokerage consultancy, UNION Group, retaining the right to buy the remaining shares over a period of five years. Having already acquired several companies in the same field, UNION Group makes a strong strategic ally, consolidating Glitnir's position in the Norwegian commercial real estate market. Established in 1984, UNION Group is an independent financial advisory firm focusing on real estate consultancy with 25 employees at the time of acquisition. The Group had generated NOK 60 million in net profit after tax and minority interests in 2005.

Fischer Partners Fondkommission

May 2006

Glitnir's advance in the Nordic securities brokerage sector continues with the acquisition of the Swedish brokerage firm Fischer Partners Fondkommission AB. Total consideration for all shares is SEK 380 million. Fischer Partners, now Glitnir AB, is a member of the stock exchanges in Stockholm, Helsinki, Copenhagen, Oslo, Riga, Tallinn, Vilnius and Warsaw, as well as of Eurex. At the time of acquisition, the company employs 75 people. Pre-tax profit in the first quarter of 2006 is SEK 12.6 million and profit after tax in 2005 had been SEK 37.9 million.

Norsk Privatøkonomi ASA

Aug 2006

Glitnir subsidiary BNbank acquires 45% of shares in Norwegian financial advisory company Norsk Privatøkonomi ASA (NPØ). NPØ's 12 branches in two key geographical areas consolidates Glitnir's distribution network in Norway.

HF. EIMSKIPAFÉLAG ÍSLANDS

Company Overview:

HF Eimskipafélag Íslands was originally established in 1914 as the first Icelandic shipping company and both the general Icelandic public and those US and Canadian citizens of Icelandic origin flocked to become shareholders. This was the first limited liability company with such widespread ownership.

HF Eimskipafélag Íslands was, for many decades, one of the most important companies in Iceland, both as a shipping company and also as an investor with a heavy presence in other sectors such as the airline and fishing industries.

After the liberalization of the Icelandic economy in 1995, the investment arm of Eimskip, Burdarás, was formed as a separate entity. A decade later, Eimskip, the shipping division from which Burdarás had originated, was sold to Avion Group for EUR 291 million. The sale established Burdarás as purely a financial investment company and Eimskip as a part of Avion Group.

Market Capitalization	USD 828 million
Change in Share Price, since IPO*	-15.1%
Net After-Tax Profit**	USD 79 million
*Dec 2005 **Full year 2006	

Avion Group traces its roots back to the establishment of the transport airline Air Atlanta in 1986. During the next two decades, operations progressed around the globe, and the group's primary focus evolved to leasing wide-bodied aircraft on an ACMI (Aircraft, Crews, Maintenance and Insurance) basis to airlines needing extra passenger and cargo capacity. In January 2005, Avion Group was formed as a holding company for all transportation operations.

In November 2006, Avion Group changed its name to HF Eimskipafélag Íslands and is now listed as such on the Iceland Stock Exchange. For the sake of clarity, the appropriate names of the company during each stage of its development will be used in the following coverage.

HF Eimskipafélag Íslands is at present formed by two business divisions. On one hand are the aviation services, which include Air Atlanta Icelandic, Avia Technical Services, Avion Aircraft Trading, and South Air. On the other hand is the shipping and logistics division, which includes Eimskip and Eimskip Flytjandi. HF Eimskipafélag Íslands operates some 25 aircraft and between 40 and 50 vessels with a total of 9500 employees, and has an annual turnover close to two billion US Dollars.

Did You Know?

- Of the 90.000 people living in Iceland at the time that Eimskipafélag Íslands was registered as a limited liability company, 14,000 became shareholders.
- Eimskipafélag Íslands was for decades nicknamed Favorite Child of the Icelandic nation.
- Eimskip is the Icelandic word for steamship.

Major Foreign Investments and Acquisitions 2001-2006

Jan 2004

Shannon MRO

Air Atlanta Iceland acquires Irish airline ground and technical service company, Shannon MRO. Financial details of the transaction are not disclosed. The acquisition allows Atlanta to set up a maintenance dock to service its air fleet as well as other airlines'. Shannon MRO employs 150 employees at the time with a gross turnover of EUR 11 million in 2003.

Feb 2004

Excel Airways

Air Atlanta acquires a 40.5% share in a British charter airline, Excel Airways, for a total consideration of GBP 29.9 million. The transaction is financed with loans from Kaupthing Bank. The acquisition allows Air Atlanta to expand their operations further, as Excel Airways is one of the largest charter airlines in the UK, with gross turnover in 2003 of GBP 247.3 million. Later that same year, Air Atlanta consolidates its ownership of Excel Airways, acquiring a further 30.9% and finally all remaining shares in two transactions whose financial details are not disclosed.

Mar 2004

CTG AS

Eimskip acquires a majority stake in the Norwegian transport company CTG AS. The financial details of the transaction are not disclosed. The acquisition provides synergy on several levels and strengthens Eimskip's position in the market of frozen and chilled seafood transportation. CTG, founded in 1997, employs approximately 20 people at the time, with gross revenue for 2003 close to NOK 90 million.

Aug 2004

Faroe Ship

Eimskip acquires a 100% equity stake in Faroese transport company Faroe Ship for an undisclosed sum. Faroe Ship was founded in 1919 and operating activities include shipping, inland transportation and logistics.

Jun 2005

RGH Company

Avion Group acquires The Really Great Holiday Company (RGH), a British travel agency, for an undisclosed sum. The transaction is partly financed by Glitnir Bank. The acquisition allows Avion to grow further within the leisure division as well as to benefit from synergies in aircraft utilization. Gross revenue for 2004 was GBP 118 million.

Jul 2005

Casino Express

Avion acquires a 19% share in the US charter airline Casino Express. Financial details are not disclosed. The transaction benefits Avion, allowing efficient use of its aircraft for charter projects within the USA.

Aug 2005

Technical & Logistics Services, Ltd.

Avion acquires a 70% stake in British maintenance company Technical & Logistics Services Ltd for an undisclosed sum. The transaction is an effort to meet the growing demands of the aviation industry for technical and logistics services.

NOTE: COVERAGE CONTINUES ON NEXT PAGE

Daalimpex Beheer B.V.

Eimskip, Avion Group's subsidiary, acquires 40% of the frozen storage company Daalimpex Beheer B.V. in the Netherlands. Financial details of the transaction are not disclosed but the deal substantially increases Eimskip's capacity in that sector. The founder and CEO of Daalimpex keeps the remaining shares of the company but Eimskip has a call option on them which it excercises in January 2007, becoming the sole shareholder of the company. The deal allows for synergy among several fields and provides Eimskip with access to several new markets.

Farmaleidir

P/F Heri Thomsen, a subsidiary of Eimskip in the Faroe Islands, acquires Farmaleidir, a state-owned land transportation firm. The sale of Farmaleidir is the largest privatization ever in the Faroe Islands. Farmaleidir will become an integral part of the international transport system of Eimskip and its other subsidiary in the Faroe Islands.

WLD Transport & Spedition

Eimskip Transport AB, a subsidiary of Eimskip in Sweden, acquires WLC Transport & Spedition in Helsingborg for an undisclosed sum. The two companies merge, creating synergy on several levels.

Kosmar Villa Holidays

Excel Airways, a subsidiary of Avion Group, acquires 24 year-old travel agency Kosmar Villa Holidays in the U.K., which specializes in holiday trips to Greece. The price is confidential and the transaction is financed with Excel's own assets and loans. Kosmar's turnover on 2005 is 80.7 million GBP, with sales of 250.000 package trips.

Sep 2005 | Nov 2005 | Dec 2005 | Feb 2006 | Apr 2006 | May 2006 | Jun 2006

CTG

Eimskip acquires all outstanding shares in CTG and merges Eimskip's Norwegian opreations with CTG, creating Eimskip-CTG.

Innovate Ltd.

Eimskip acquires a 55% share in British company Innovate Ltd, which specializes in the storage and distribution of chilled and frozen foods. The price is confidential and is financed by Eimskip's assets and loans. Investment in Innovate contributes to Eimskip's goal of becoming a leading company in the distribution of temperature-sensitive goods. Innovate has 25 warehouses at 11 locations in Britain and the company employs 1,400 people. Annual turnover in 2005 was GBP 60 million with an EBITDA margin close to 6%.

Star Airlines

Avion Group purchases the entire issued share capital of French charter airline Star Airlines. Financial details of the transaction are not disclosed. The acquisition offers Avion a good opportunity to grow in the continental European market and to gain synergies with other entities. Star Airlines is the second largest charter airline in the French market at the time with approximately 460 employees. Star Airlines reported revenues of EUR 173 million in 2005, yielding EBITDA of EUR 1.9 million.

Crystal

Star Airlines, a subsidiary of Avion Group, acquires French wholesale travel agency Crystal. The purchase of Crystal allows Star Airlines to advance further into the French market. Crystal's turnover in 2005 was approximately EUR 14 million, with pre-tax profits of EUR 750.000.

Sep 2006

Containterships Oy

Eimskip acquires a 65% share in the Finnish company Containerships Oy. The purchase price is confidential at the wish of the seller and is financed by Eimskip's own funds and loans. The acquired firm complements previously-acquired Kursiu Linija, strengthening Avion's position in the short-length shipping transportation market. Eimskip has an option to buy the remaining 35% share at a later date.

Vacances Heliades

Avion Group acquires French Travel Agency Vacances Heliades, which specializes in travels to Greece and Cyprus. Total consideration of EUR 7.7 million is financed by its own funds and loans. The acquisition opens access to a large new market. Heliades' turnover in 2005 was EUR 80 million with pre-tax profits of EUR 3.3 million.

Kursiu Linija

Eimskip finishes its acquisition of Kursiu Linija, a Lithuanian shipping company. Total consideration for all shares in Kursiu is EUR 8 million and the transaction is financed with Avion's equity. The company represents a strong addition to Eimskip's existing fleet.

Oct 2006

Corby Chilled Dist.

Innovate Ltd. acquires Corby Chilled Distribution Ltd. The purchase price of GBP 28 million is financed by Innovate's own funds and a loan from Glitnir Bank. The acquisition adds to Eimskip's pre-existing transport net. Previous year's turnover at Corby is GBP 51.1 million and EBIDTA GBP 4.2 million.

Oct 2006

Sale of Selected Assets

Avion Group sells assets for USD 501 million. All shares in XL Leisure Group (consisting of Excel Airlines Group, Star Airlines and Star Europe and all subsidiaries) are sold for USD 450 million, with realized profit of USD 107 million. Additionally, 51% of Avion Aircraft Trading is sold for USD 51 million with realized profit of USD 47 million. Total profit from the transaction amounts to USD 154 million.

Nov 2006

Pacific Tramper Svcs

Eimskip acquires Pacific Tramper Services Inc in Seattle for an undisclosed sum financed with equity. The transaction opens access to transportation markets in Alaska. Annual turnover of PTI in 2005 is approximately USD 6 million with EBIDTA close to USD 400,000.

Atlas

Avion Group, on behalf of Eimskip Atlas Canada, acquires all outstanding shares in Atlas Cold Storage Income Trust, ACSIT, for a total consideration of CAD 630 million. The acquisition is fully financed with senior secured credit facilities, pro-vided by RBC Capital Markets and CIBC World Markets Inc. The acquisition offers extensive synergy opportunities and allows Avion a further presence in the US market.

Atlas Cold Storage Income Trust, through its operating arm, Atlas Cold Storage, is the second largest cold storage company in North America. Atlas Cold Storage has 53 facilities in the U.S. and Canada. Gross turnover of ACSIT in 2005 was CAD 470 million and EBIDTA was CAD 55 million.

Major Foreign Investments and Acquisitions 2001-2006

Fisher Foods
100% of Fisher Foods (UK) acquired for GBP 5.5 million, financed through loans. Fisher employs 240 people and reports turnover of GBP 35 million in 2002.

2002

Ocean to Ocean
100% of Ocean to Ocean (USA) acquired with available funds for an undisclosed price. Ocean to Ocean reports turnover of USD 110 million in 2003 and employs 40.

Neptune Fisheries
100% of Neptune Fisheries (USA) acquired for USD 3.5 million, financed with available funds. Neptune, has 60 employees and turnover of USD 45 million in 2003.

2003

Barogel
100% of French Barogel purchased with available funds for EUR 2.2 million. The 10-person company reports EUR 22 million in turnover for 2003.

Cavaghan & Gray
100% acquisition of Cavaghan & Gray (UK) for GBP 12.6 million, financed through loans. The company reports GBP 40 million in turnover and employs 240 people in 2004.

Seachill
100% of UK-based Seachill purchased with loans for GBP 38 million. The 550-employee company reports GBP 90 million in turnover in 2004.

2004

Comigro Geneco
100% of France's Comigro Geneco acquired for a consideration of EUR 3 million, financed with loans. The 3-person acquisition reports turnover of EUR 10 million in 2004.

Coldwater UK
Icelandic Group acquires 25% of Coldwater UK in a transaction financed with a combination of loans and equity, for a total consideration of GBP 6.2 million.

Ecomsa
100% of Ecomsa (Spain) acquired for a total consideration of EUR 4.1 million, financed through loans. Ecomsa employs 60 people and reports turnover of EUR 21 million at the time of acquisition.

Dalian Three Star
97% stake in Chinese Dalian Three Star is acquired for a consideration of USD 2.7 million, paid with available funds. The company reports USD 27 million in turnover for 2005 and employs 380.

2005

Pickenpack
100% of Pickenpack (Germany) acquired for a consideration of EUR 68 million, through an issue of new shares. Pickenpack employs 600 people and reports EUR 200 million in turnover for 2005.

Saltur APS
Full ownership of Danish Saltur APS is acquired for EUR 12.3 million. The transaction is financed with an issue of new shares. Saltur employs 115 and reports turnover of EUR 40 million in 2006.

2006

Fish Farm
Iceland Group acquires a majority stake (51%) in Fish Farm, a Chinese firm, for an undisclosed sum paid with available funds. Fish Farm reported turnover of USD 12 million for 2006.

Wimille
100% of French Wimille is acquired for EUR 17 million. Wimille reports 2006 turnover of EUR 50 million and employs 300.

Company Overview:

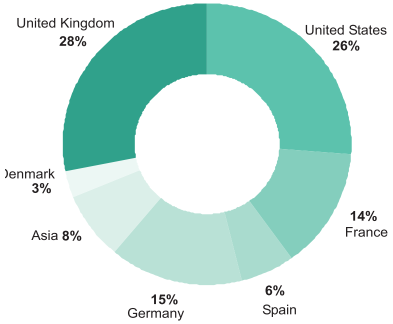
Icelandic Group, formerly named Icelandic Freezing Plants Corporation, was founded in 1942 with the objective to develop and sell marine products manufactured in the freezing plants of its members. This included seeking new markets for the products as well as experimenting in new products and processing methods in the freezing plants.

Market Capitalization	EUR 246 million
Change in Share Price, 2006	-19%
Net After-Tax Profit*	EUR 3.3 million
*First 9 months of 2006	

Icelandic Group, originally owned by its member companies, was reformed as a limited liability company in 1996 and eventually became listed on the Icelandic Stock Exchange. The former owners gradually sold their shares and new actors gained ownership of the corporation.

Recent years have seen a shift in focus as the company has turned its sights to the market for fresh and chilled seafood. This market is believed to offer more extensive growth opportunities than those for minimally-processed marine products, leading Icelandic Group to put more emphasis on the former with investments in companies that both increase the Group's range of products and are well positioned in the market for fresh seafood. In addition to all of the principal species of whitefish, products offered by Icelandic Group include shrimp, shellfish and mollusks of various kinds.

Sales Distribution



The Group constitutes an international network of independent companies, each operating in its own market area in the production and sale of seafood products. Icelandic Group operates both in the retail market and in food service. In the latter, the Group has built up its ICELANDIC brand, which enjoys a strong position in certain markets and is gaining ground in others. In the retail market, however, Icelandic Group has focused on manufacturing under the brands of the retail chains that it serves.

The main purposes of Icelandic Group's foreign investments and acquisitions are to capitalize on opportunities for synergies and to advance on respective markets. In markets with homogenous products, internal growth is always limited and therefore the company has sought to expand into foreign markets. External growth in recognized markets, where Icelandic Group products have already gained a foothold, provides the company with opportunities of synergy in production, marketing and sales.

Did You Know?

- Despite the name, Icelandic, most products sold under this brand come from areas outside Icelandic waters. The "Icelandic" brand is simply based on quality standards.
- The products may be sourced in any corner of the world just as long as they meet these standards.
- When it comes to seafood, freezing is a superb conservation method to maintain a high quality.

KAUPTHING BANK

Company Overview:

Kaupthing hf. was originally established at the dawn of financial liberalization in Iceland, in 1982. It started off as a small agency for financial advisory services and securities brokerage. In the mid 90s, Kaupthing began to flourish in securities brokerage and asset management. At the same time, it widened its focus to include opportunities abroad. Kaupthing Bank became licensed as an investment bank in 1997 and was granted a commercial banking license in January 2002 (when the word "Bank" was added to its name).

Market Capitalization	EUR 6.8 billion
Change in Share Price, 2006	12.2%
Net After-Tax Profit*	EUR 948 million
*Full year 2006	

Kaupthing Bank has continued to strengthen its international operations through acquisitions and the establishment of subsidiaries, expanding beyond the Nordic region's borders and defining its presence in northern Europe. Initial developments include the acquisitions of the brokerage house Sofi Oyj in Finland in 2001 as well as the Swedish bank JP Nordiska AB (now Kaupthing Bank Sverige AB) in November 2002. In 2003, the investment bank, Kaupthing Bank, and Búnardarbanki, a corporate and retail bank, merged under the name Kaupthing Bank. The two most recent acquisitions, of Danish bank FIH Erhversbank A/S and Britain's Singer & Friedlander Group plc (now Kaupthing Singer & Friedlander), are the most significant.

Kaupthing Bank hf. is an Icelandic public limited company with its registered office and headquarters in Reykjavik. The Bank is the parent company in a financial group that provides a wide range of financial services and products.

The Kaupthing Bank group defines northern Europe as its home market. However, it operates in ten countries including Iceland, Sweden, Finland, the United Kingdom, Luxembourg, the United States, Norway, Switzerland and the Faroe Islands.

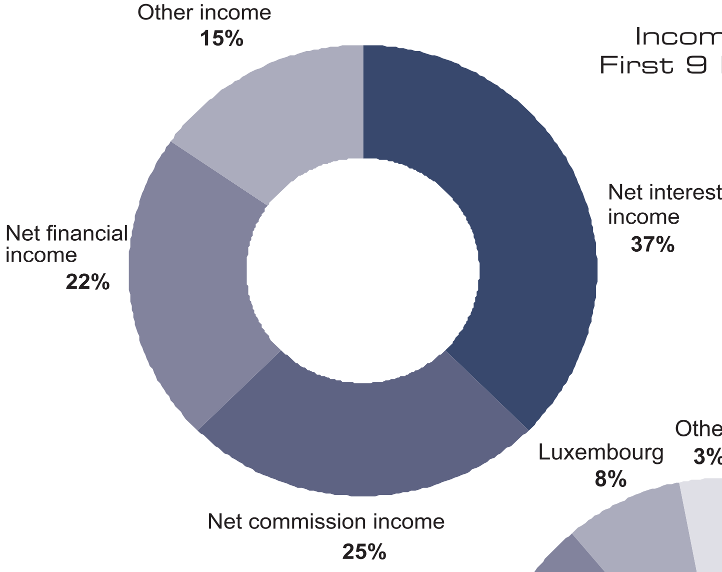
Kaupthing Bank divides its operations into five profit centres plus ancillary units. The Bank's profit centres (business units) are: Banking, Capital Markets, Treasury, Investment Banking and Asset Management, and Private Banking.

In October 2000, Kaupthing Bank was listed on the Iceland Stock Exchange, and in December 2002 it was listed on the O-list of the OMXS, which has now been replaced by the Nordic List.

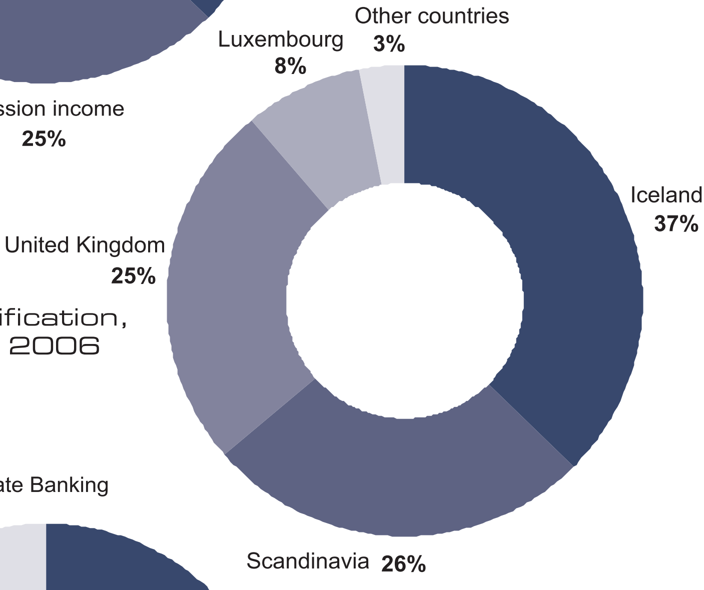
Did You Know?

- Kaupthing Bank was the single largest taxpayer in the Icelandic economy in 2005, with total payment of approximately EUR 80 million.
- Kaupthing Bank's total value is close to 60% of Icelandic GDP for 2005
- The company logo is supposed to symbol the K of Kaupthing.

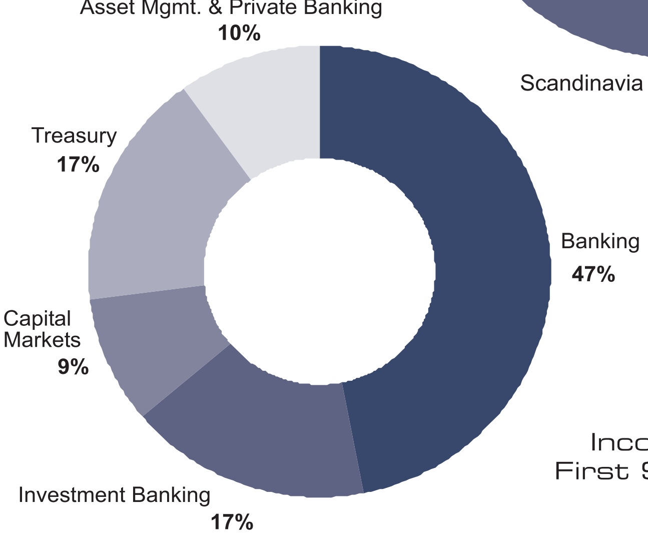
Income Distribution, First 9 Months of 2006



Geographical Diversification, First 9 Months of 2006



Income Distribution, First 9 Months of 2006



Major Foreign Investments and Acquisitions 2001-2006

Sofi Financial Services Group

Kaupthing Ltd acquires Finnish company Sofi Financial Services Group. The consideration consists of 164 million shares in Kaupthing, with an additional 60 million shares payable over three years subject to performance. At the time the market value of 224 million shares in Kaupthing is close to EUR 25 million.

The acquisition advances the process of Kaupthing becoming a solid Nordic investment bank. The goal is to establish powerful asset management and private banking in all Nordic markets.

Sofi is a specialized asset management and stock brokerage firm with 35 employees at the time. Firms, institutional investors and wealthy individuals make up its main customer base. Total sales in the first nine months of 2001 are EUR 5.4 million, with after-tax profit of EUR 1.2 million.

Norvestia Oyj.

Kaupthing bank acquires a 30.35% share, with majority voting power, in Finnish investment company Norvestia Oyj. The transaction is financed with the issue of 33.2 million new shares, valued at approximately EUR 70 million at the time. Kaupthing reveals that they will not increase their share in Norvestia any further.

Norvestia becomes a subsidiary of Kaupthing bank after the acquisition but operates as an independent entity listed on the Helsinki Stock Exchange. The transaction is in accordance with the bank's policy to advance further in the Nordic region. It strengthens its asset management and private consulting services, as well as diversifies risk with a broader stock portfolio.

Nov 2001	Feb 2002	Aug 2002	Sep 2003

Aragon Holding AB

Kaupthing acquires 96.87% of shares in the Swedish securities firm Aragon Holding AB for a consideration of 179.7 million Kaupthing shares. The total value of the deal is estimated SEK 230 million. The purchase furthers Kaupthing's strategy to extend its presence in the Nordic region and serves as a platform from which to increase the bank's market share in private banking and asset management. The company had reported a loss of SEK 23 million in 2001, and ended the year with owner's equity of SEK 179 million.

JP Nordiska

A major milestone in Kaupthing's advance towards international markets is achieved with the acquisition of Swedish bank JP Nordiska, in which Kaupthing had already acquired 28% when Aragon Holding AB merged with JP Nordiska a few months earlier. Total consideration for shares not belonging to Kaupthing amounts to SEK 730 million and the transaction is financed with an issue of new shares. After the acquisition Kaupthing becomes listed on the Stockholm stock exchange.

Synergy is achieved on several levels. The acquisition allows Kaupthing to utilize its capital more efficiently, to broaden its income base and to increase flexibility with more financial strength. In addition, the increased liquidity of Kaupthing's stock, in an international sense, makes the company's stock more viable as a currency in future acquisitions.

JP Nordiska has around SEK 20 billion in holdings and in asset management for over 50,000 customers at the time. Total number of employees is 240 and total owner's equity amounts to SEK 670 million.

Jun 2004

FIH Erhversbank A/S

One of the biggest acquisitions in Icelandic history is executed when Kaupthing bank acquires all shares in Danish FIH Erhversvsbank A/S. Total consideration of EUR 980 million doubles the size of Kaupthing bank. The acquisition is funded through a combination of a subordinated bond issue and a rights issue.

There are several strategic benefits and synergy achieved by the deal. The combined entity provides a platform for growth in corporate finance, acquisition finance and private equity investments, continuing Kaupthing's process of becoming a leading investment bank in the Nordic region. The cross-selling opportunities enable FIH's wide range of clients to benefit from Kaupthing Bank's broader product portfolio. There is no overlap over operations of the two banks so there is no need for a reorganization of the FIH business.

FIH, founded in November 1958, made an IPO in November 1988 on the Copenhagen Stock Exchange and was de-listed in 2000. The bank focuses primarily on providing medium- and long-term financing to the full spectrum of Danish corporations. It employed around 180 people at the time with the majority working from the head office in Copenhagen. FIH's net earnings after tax in 2003 were EUR 76.4 million.

Nov 2004

Sale of Danish Kaupthing Bank A/S

Following the acquisition of FIH, the bank's subsidiary in Denmark, Kaupthing Bank A/S, is transferred to the Faroese savings bank, which already holds a 25% share of the subsidiary. Before the transfer, FIH had acquired the Investment Banking division from Kaupthing Bank A/S. Kaupthing Bank's profit from the sale is approximately EUR 4.5 million.

Mar 2005

Singer & Friedlander Group

Kaupthing bank acquires British bank Singer & Friedlander Group through a wholly owned subsidiary. Total consideration for the entire issued share capital is GBP 547 million, paid in cash. Kaupthing does not issue any new share capital in connection with the offer.

The acquisition allows Kaupthing Bank to further develop its operations in the UK, currently one of its key markets. Kaupthing's existing strength in UK mergers and acquisitions advisory and leveraged finance makes a good complement to Singer & Friedlander's strengths in banking, asset finance and investment management.

Singer & Friedlander, founded in 1907, carries out investment management as well as lending and asset finance activities for private clients, charities and institutions. It has approximately 660 employees at the time of acquisition. The bank reported net earnings of GBP 26.4 million in 2004.

Nov 2005

Sale of Neomarkka Oyj.

Kaupthing Bank's subsidiary, Norvestia Oyj, sells all its shares in Neomarkka Oyj. Estimated consideration is EUR 30.4 million, generating a profit of EUR 10 million from the deal. Kaupthing owns a 32.5% share in Norvestia.

Landsbankinn

Company Overview:

Landsbanki was established by an act of parliament in 1885 and opened for business in 1886. It is Iceland's oldest full-service commercial bank. Since its establishment, the bank has been instrumental in the development of industry and business in Iceland. Following its privatization from government ownership in 1998-2003, Landsbanki has expanded rapidly, positioning itself as one of Iceland's primary sources of general and specialized financial services to individuals, corporate entities and institutions, with over 30% market share in all major business segments.

Building on its foundation in Iceland, Landsbanki has extended its financial services into new markets, focusing on servicing mid-cap corporates in Europe in a transactional setting. Landsbanki's product offering includes access to both debt and equity markets, including one of the largest research footprints in Europe: 90 analysts cover more than 800 European stocks locally. Landsbanki and its subsidiaries have offices operating in all major financial centres of Europe, as well as in North America, in New York and Halifax. Through its extensive distribution network, Landsbanki has a strong platform from which to deliver targeted financial services based on local expertise.

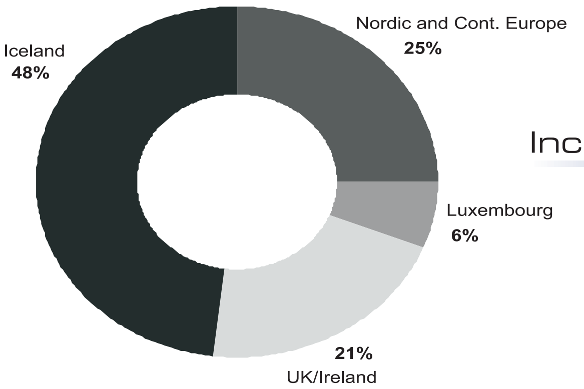
Market Capitalization	EUR 3.24 billion
Change in Share Price, 2006	1.5%
Net After-Tax Profit*	EUR 446 million
*Full year 2006	

Landsbanki has been growing rapidly, with total assets of ISK 2,173 billion (EUR 23.2bn) at year-end 2006 and a market capitalization of ISK 321 billion (EUR 3.43bn). Landsbanki is headquartered in Reykjavik, Iceland. Landsbanki Islands HF is traded on the ICEX Icelandic stock exchange under the symbol <LAIS IR>.

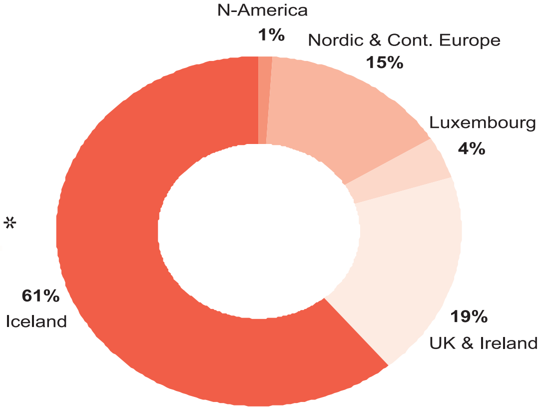
Did You Know?

- Celebrating its 120th anniversary in 2006, Landsbanki is the oldest company listed on the Icelandic Stock Exchange.
- Landsbanki functioned as the Central bank of Iceland, responsible for issuing bank notes until that role was transferred to the newly established Central Bank of Iceland in 1961.
- In December 2006 the market value of Landsbanki was almost eight times higher than only three years earlier.

Income by Location*

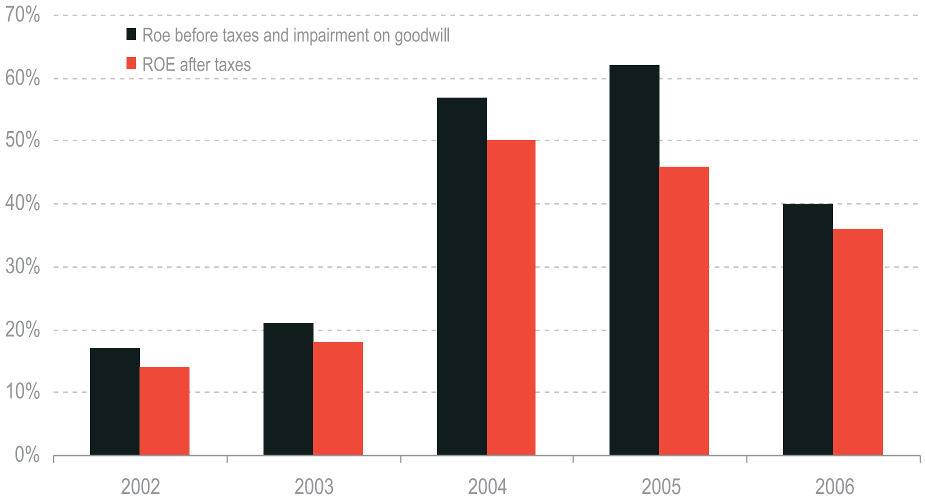


Employees by Location*



*2006

Return on Equity



Major Foreign Investments and Acquisitions 2001-2006

Feb 2002 | Apr 2003 | Feb 2005 | Apr 2005 | Aug 2005

Heritable Bank

Landsbanki purchases the remaining 30% of shares in the Heritable Bank in London, completing its acquisition begun in 2000, for a total consideration of GBP 25.9 million. The acquisition ranks among the largest single equity transactions of an Icelandic company outside Iceland at the time. Established in 1877, Heritable-Landsbanki's core business is to provide structured finance for the development of residential, and to a lesser extent commercial, property. Since the acquisition, Heritable-Landsbanki has steadily expanded its business; it now employs 84 people compared to 27 at the time of acquisition.

Bunadarbanki International SA

An agreement is made with Bunadarbanki Islands (now Kaupthing Bank) to acquire Bunadarbanki International SA, a subsidiary of Bunadarbanki in Luxembourg. Total consideration is EUR 15.3 million (ISK 1,379m). The acquisition of a Luxembourg operation is a milestone in the bank's ongoing strategy of expanding its international presence. Landsbanki Luxembourg offers private banking, wealth management and other banking service facilities, serving Iceland as well as clients from Scandinavia and Northern Europe. Landsbanki Luxembourg now employs 93 people, compared with 23 at the time of acquisition.

Teather & Greenwood

Landsbanki acquires British stockbroker Teather & Greenwood for a consideration of GBP 42.8 million. The acquisition marks the first step in establishing a Pan-European platform focused on corporate and investment banking and represents an important milestone in Landsbanki's advance into the British market, in line with the Bank's strategic objective to diversify income streams and broaden both sector and geographic coverage. Teather & Greenwood is an independent UK stockbroker specializing in institutional stock broking and corporate finance advisory services. With access to Landsbanki's broader range of corporate and investment banking products and services, including structured finance, Teather & Greenwood is now positioned to offer its customers a more comprehensive service. Teather & Greenwood-Landsbanki now employs 149 people, compared to 130 at the time of acquisition.

Key Business Finance Corporation

Heritable Bank, a UK subsidiary of Landsbanki, acquires Key Business Finance Corporation for an undisclosed amount. The acquisition follows Landsbanki's policy to expand Heritable Bank-Landsbanki's operations, through both the internal growth of existing activities and the diversification of external growth. Key Business Finance, founded in 1988, specializes in providing short-term working capital finance to the legal profession. Total assets of the Heritable Bank following the transaction are GBP 450 million. The loan book of Key Business is GBP 50 million, extended to 1,250 clients.

Split of Burdarás

Investment firm Burdarás, largely owned by Landsbanki and Straumur Investment Bank, is split up and the two entities merged with the two major owners. Among the assets allocated to Landsbanki is a 19.8% share in Swedish investment bank D. Carnegie & Co AB, as well as shares in Intrum Justitia AB, Carrera Global Investments Ltd., Straumur Investment Bank Ltd, Marel hf. and other movable assets.

Kepler Equities SA

Landsbanki acquires European securities company, Kepler Equities SA, previously known as Julius BŠr Brokerage. Initially, Landsbanki acquires 81% of the total shares for a consideration of EUR 81.6 million, with an agreement to acquire the remaining shares, held by employees, over a five-year period. Landsbanki funds the transaction with available funds. A strategic fit with previously acquired Teather & Greenwood in the UK, the acquisition provides Landsbanki with an extended platform from which to develop its Pan-European corporate and investment-banking platform. Kepler is a leading continental European securities company, providing research-based institutional brokerage and securities placement. It also provides local research coverage of European companies, which it markets to institutional clients worldwide. The company now has operations in Amsterdam, Frankfurt, Madrid, Milan, Paris, Zurich and Geneva, and a sales team in New York. Kepler-Landsbanki now employs 309 people, compared to 240 at the time of acquisition.

Merrion Capital

Landsbanki acquires a 50% share in the Irish stockbroking and corporate finance firm, Merrion Capital, agreeing to acquire the remaining 50% over the next three years. Initial consideration is EUR 55.3 million, with the final acquisition price to be based on future profits. Merrion has been profitable every year since the firm was established in 1999. The acquisition is financed through internal resources and is in line with Landsbanki's strategic objective to create a Pan-European banking platform. Merrion strengthens Landsbanki's position in the European stock broking business and complements previously acquired firms, Kepler Equities-Landsbanki and Teather & Greenwood-Landsbanki, both operationally and geographically. The acquisition also creates an opportunity for Landsbanki to enter the Irish financial services market with an emphasis on corporate finance, wealth management and fund management services. Merrion-Landsbanki now employs 81 people, compared to 75 at the time of acquisition.

D. Carnegie & Co AB

Landsbanki sells its 19.8% share in Swedish investment bank D. Carnegie & Co AB for EUR 235 million. Realized capital gain from the transaction is approximately EUR 110 million. The holding had been acquired in the redistribution of assets from the split of investment company Burdaras hf, in August 2005. The sale is consistent with Landsbanki's strategy of actively managing its trading portfolio positions.

Cheshire Guernsey Ltd

A Guernsey-based bank, Cheshire Guernsey Limited, is acquired for a consideration of GBP 1.2 million, in addition to the approximately GBP 20 million net asset value of the company. Cheshire Guernsey, established in 1997, has around GBP 110 million in deposits at the time of purchase. The acquisition of subsequently-named Landsbanki Guernsey Limited allows Landsbanki a fast track entry into the offshore banking sector as well as a foundation to diversify its funding sources, i.e. further development of its deposit programs and implementation of new deposit initiatives. The administration of the bank is outsourced to a third party service provider in Guernsey.

Major Foreign Investments and Acquisitions 2001-2006

Aug 2001

OL-Tool Production Aps

Subsidiary Carnitech A/S acquires OL-Tool Production Aps in Denmark for EUR 1.5 million. The primary purpose of the acquisition is to increase production capacity to meet increasing demand for Marel's products. OL-Tools specializes in stainless steel products and has 22 employees at the time. Turnover in 2000 had been EUR 1.5 million with EBITDA of EUR 85.000.

Dec 2001

CP Food Machinery A/S

Carnitech A/S acquires Danish CP Food Machinery A/S for a total consideration of DKK 29.5 million. The company's product line fits well with Marel's existing products, creating synergy with minimum overlap. CP Food specializes in cutting machinery and has 28 employees. Gross turnover in 2001 is estimated at DKK 38 million with pre-tax profit of DKK 5.6 million.

Dec 2004

Röscherwerke GmbH

Carnitech A/S acquires a component of German company Röscherwerke GmbH. Financial details are not disclosed, but estimated turnover of the acquired operations is EUR 3 million in 2004.

Sep 2005

Dantech Food PTE

Carnitech acquires Singaporean company Dantech Food PTE for an undisclosed sum. With the purchase, Carnitech improves its position in the fast-growing Asian market. Dantech is a distributor of machinery for the manufacturing of quick-frozen fish. Turnover in 2004 totals 4.8 million Euros.

Apr 2006

AEW Thurne, Delford Sortaweigh

Marel expands its market share by acquiring UK-based AEW Thurne and Delford Sortaweigh. The purchase price of GBP 13.55 million is financed by Marel's own funds and a bond issue. The acquisition provides a more diverse product portfolio, stronger R&D, and synergies in the area of sales and service networks. The new AEW Delford Systems operates two sales and marketing subsidiaries in the USA and a branch in France and employs 300 people. Turnover of AEW and Delford in 2005 is reported as GBP 26.9 million with revised EBIDTA of GBP 2 million,

Jul 2006

Scanvaegt A/S

Marel acquires 100% of Danish food equipment manufacturer Scanvaegt A/S for a total consideration of EUR 109.2 million. The purchase allows Marel to improve its product offering and lower costs, improving profitability through synergy. Scanvaegt A/S, a family firm founded in 1932, is one of the leading global suppliers of equipment for the food-processing industry with 19 subsidiaries in 16 countries and 700 employees.

Sep 2006

Public Share Offer

Marel offers 75 million new shares in a public offer to meet high demand. With a total value of EUR 61 million, the offer increases Marel's capital for investment to approximately EUR 278 million. The issue increases the number of shareholders from 1100 to 3700, with 25 pension funds becoming shareholders, and increases foreign ownership of the company to around 15%. It is likely that further acquisitions lie ahead in the near future.

Company Overview:

Marel traces its history to 1977, when two engineers at the University of Iceland began to examine the possibility of developing scales to effectively control production in fish processing plants. The first prototype appeared in 1978.

Marel hf was established in 1983 and has since developed into a world leader in developing and manufacturing high-tech food-processing equipment.

The first marine scale, which could be used on board ships, was sold in 1985. At the same time the first subsidiary was established in Nova Scotia. These marine scales were sold and installed on fishing vessels all over the world, and by 1990, Marel hf had become the leader in the global market for on-board weighing systems, having installed more than 2000 marine scales in 700 vessels from 25 countries.

Market Capitalization	EUR 322 million
Change in Share Price, 2006	21.5%
Net After-Tax Profit*	EUR 700,000
*First 9 months of 2006	

The Marel fish-processing system, using computer vision, was developed in the eighties and was followed by a high-speed grader for the poultry market in 1988. These innovations create the foundation that Marel would use to develop dozens of new pieces of processing equipment over the following decade.

In 1997 Marel acquired the Danish company Carnitech A/S, and by 1998 had established six foreign subsidiaries. In 2002, Marel's employees numbered more than 780, of which 494 were located outside of Iceland. At the start of the new millennium, Marel has made inroads into the meat processing industry.

By 2006, Marel Group, defined as "Partners in Processing" and consisting of Marel h/f, Carnitech, and AEW Delford Systems, had 16 subsidiaries in 14 countries and a global network of over 50 agents and distributors. The Group has 2000 employees, of which 795 are based in Denmark, 350 in Iceland and 380 in the UK.

In 2006, Marel announced its five-year plan, which is to become a leading global manufacturer of food processing equipment and to triple its annual revenues over the next 3 to 5 years.

Did You Know?

- The Marel Group has sold equipment to over 70 countries.
- The only X-ray machine in the world that can detect fine fish bones is made by Marel.
- It is very likely that the bacon in your English breakfast is sliced on a machine made by the Marel Group.

Company Overview:

Straumur-Burdarás Investment Bank hf was created by the merger in August 2005 of Straumur, which originated as the first Icelandic equity fund, and Burdarás, the first Icelandic-owned shipping enterprise. It is currently the largest investment bank in Iceland, offering a wide range of corporate finance, lending, and brokerage services to Icelandic and international companies.

Straumur's roots go back to the Equity Fund Ltd. (Hlutabréfasjóðurinn), which was the first Icelandic equity fund, founded in 1986. It became an investment company in 2001, after changes in securities markets and Icelandic tax law. In 2004, Straumur Investment Company was licensed by the Icelandic Financial Supervisory Authority to operate as an investment bank. During an impressive growth phase in which the company took three years to grow from an equity fund to an Investment bank, Straumur saw an eight-fold increase in its equity base with a consistent double-digit return on equity.

Market Capitalization	EUR 1.96 billion
Change in Share Price, 2006	6.9%
Net After-Tax Profit*	EUR 502 million
*Full year 2006	

Burdarás' roots stretch back to the shipping industry in the early 20th century, when Eimskip was founded as the first Icelandic-owned shipping company. In 2004, following changes of ownership in Eimskip, fisheries operations were sold and Burdarás became an investment company with an international focus. In 2005, Eimskip, the shipping division from which Burdarás had originated, was sold to Avion Group for EUR 291 million, making Burdarás a pure financial investment company.

Only a few months later, the merger with Straumur and Landsbanki was announced. The aim of the mergers was to create a larger and stronger financial enterprise, better equipped to take on the challenges posed by an altered banking and investment environment in Iceland, and able to undertake ambitious projects abroad.

Did You Know?

- "Straumur" is Icelandic for stream and "Burdarás" is the Icelandic word for the main supportive axis of a structure
- The Chairman of Straumur-Burdarás, Björgólfur Thor Björgólfsson, was listed number 350 on the latest Forbes list of the richest people on earth.
- Straumur was the first company listed on ICEX to have its equity nominated in euros.
- At year-end 2005, Straumur-Burdarás had the second largest shareholder base in Iceland.

Today, Straumur-Burdarás' strategy revolves around increasing its operational and geographical diversity. The Bank's goal is to become a leading Nordic investment bank, offering integrated financial services to small-and medium-sized companies in Northern Europe, with a particular focus on the Nordic countries and the UK. The Bank's aim is to balance profitable operations and sustainable growth with geographical and operational diversity. Net fee and commission income in the Debt and Corporate Finance divisions has increased fourfold over the last year, while the loan book has doubled.

In order to achieve geographical diversity, Straumur-Burdarás has focused on expanding the Bank's operations outside Iceland. At present, roughly half of the Bank's revenues are generated from international markets, and the proportion of revenues derived from international business is increasing.

- In November 2005, Straumur-Burdarás opened a branch in Copenhagen, Denmark, offering integrated corporate finance advisory and funding services to medium-sized companies. The Copenhagen branch also maintains a division within Proprietary trading.

- At the end of July 2006, the Bank acquired 50% of Stamford Partners, a specialist investment-banking firm with operations in London and Amsterdam. Stamford Partners specializes in providing investment-banking advice to European food and beverage companies, basing its advisory activities on strong relationships with leading European companies in the sector.

- The British Financial Services Authority (FSA) granted Straumur-Burdarás Investment Bank a permit to operate a branch in London, which began operating on 1 January 2007. The London office will focus initially on lending activities, with particular emphasis on syndicated loans, where Straumur-Burdarás will act variably as participant or lead arranger.

Straumur-Burdarás Core Markets

Major Foreign Investments and Acquisitions 2001-2006

Carnegie

Burdarás acquires a 10.3% share in Swedish investment bank, Carnegie, increasing its total stake to 13.3%, which will eventually reach 20% over the coming months. Total consideration for the share is SEK 600 million. When Burdarás is merged with Straumur and Landsbanki, the investment will be dispensed to Landsbanki.

Sale of Islandsbanki

Straumur-Burdarás Investment Bank disposes of 21% of the total share capital of Islandsbanki (now Glitnir). The total sale price of ISK 51.4 billion nets a realized profit of over ISK 16 billion. Straumur-Burdarás's holding in Islandsbanki is thus reduced from 26% to 5%.

Merger with Burdarás

Burdarás merges with Landsbanki Íslands and Straumur Investment Bank. Selected assets are merged into Landsbanki Íslands, while Burdarás's operations, together with the company's other assets, are merged into Straumur. The new investment bank is called Straumur-Burdarás Investment Bank and has at the time of the merger the largest equity base of all Icelandic banks.

Nov 2004	Jan 2005	Mar 2005	Aug 2005	Dec 2005	Jan 2006

Scribona

Burdarás acquires a 12.3% share in the Swedish IT company Scribona for a consideration of SEK 96 million, taking Burdarás's share to a total of 14.9% The purchase is made as a long term investment, in the hopes that announced cost cuts and restructuring will return higher future earnings. This stake will be dispensed to Straumur-Burdarás in the merger.

Intrum Justitia

Burdarás's growing share in Swedish collection company, Intrum Justitia, is increased to 4.5% for an estimated consideration of SEK 160 million. This stake will be dispensed to Landsbanki in the merger.

Finnair

Straumur-Burdarás's share (which had been growing in recent months) in Finnish airline Finnair is increased to 10.7% for an estimated consideration of EUR 95 million. Straumur-Burdarás announces that it has no intention of getting involved in Finnair's daily operations or governance. 2005 turns out to be the best year in the bank's history, characterised by growth in all operational divisions; after-tax profit is ISK 26.7 billion, equity increases by ISK 82 billion and total assets increase by ISK 170 billion.

Skandia

Burdarás discloses that the company has acquired a total of 3.5% share in Swedish insurance company, Skandia for approximately SEK 1 billion. The stake will be further increased to 4.4% in May 2005 before being dispensed to Straumur-Burdarás in the merger.

First Quarter Profits

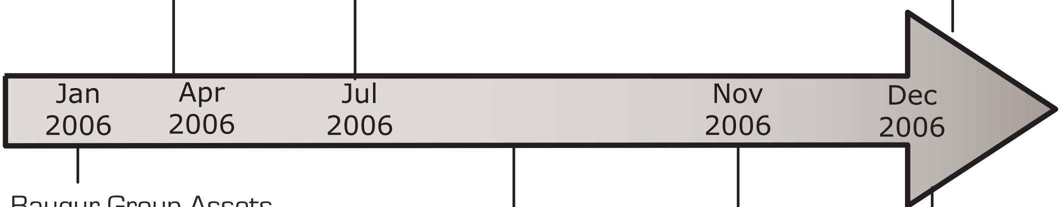
The first quarter (Q1) brings the Bank an after-tax profit of ISK 19.1 billion, an increase of 317% compared to the same quarter in 2005. There is strong growth in all divisions; net income from operations rises by 337%, amounting to ISK 24.2 billion, compared to ISK 5.5 billion for the same period in 2005.

Pricer

Straumur-Burdarás announces the acquisition of a 10.3% share in the Swedish IT company Pricer for an estimated consideration of SEK 89 million. The transaction makes Straumur-Burdarás the second largest shareholder in Pricer.

Stamford Partners

Straumur-Burdarás acquires a 50% share in British financial advisory company, Stamford Partners, with the remaining 50% to be acquired over the following three years. Financial details are not disclosed and the transaction is financed with existing funds. Stamford is a small but ingrained financial advisor with 13 employees at the time of the acquisition, and will contribute to Straumur-Burdarás's efforts to become a leading North European investment bank.



Baugur Group Assets

Straumur-Burdarás Investment Bank concludes an agreement with Baugur Group Ltd. for the sale of almost all the former's holdings in several unlisted companies, including shareholdings in Magasin du Nord, Illum, Iceland, and Booker. In concluding these transactions, the Bank realizes a profit of around ISK 3 billion in Q1 of 2006.

Senior Note Issue

Straumur-Burdarás raises EUR 200 million through the issuance of senior notes in the international debt market, under a tailored collateralized loan obligation structure (CLO). This will underpin Straumur's growing participation in the international leverage loan markets and represents an important milestone in further strengthening the banks interest-bearing asset base and interest income.

Sale of Finnair

Straumur-Burdarás sells its stake in Finnair, a market value over EUR 110 million, in a massive trade with FL Group and other investors for shares in Straumer-Burdarás, 22.6% of which is held by the Group. Straumur-Burdarás itself purchases approximately 10% of the Bank's share capital in a transaction totalling ISK 42.1 billion.

Major Foreign Investments and Acquisitions
2001-2006

Coverage of Kögun

Dec 2004

Aston Baltic SIA

Kögun acquires Latvian software retailer and service agent, Aston Baltic SIA. The purpose of the acquisition is to gain a foothold in the Baltic IT market. Financial details are not disclosed.

Nov 2005

Hands ASA

Kögun acquires Norwegian software developer Hands ASA for a total consideration of NOK 160 million. Total expected turnover of Hands in 2005 is NOK 140 million, with a NOK 14 million EBITDA. The acquisition is a part of Kögun's advance in the Nordic market for business software solutions.

Mar 2006

SCS

Kögun's last foreign acquisition of took place only several weeks before the company was acquired by Dagsbrún, when it purchased all shares in US software developer Specialists in Custom Software, Inc. (SCS). Financial details of the transaction, financed with available funds, are not disclosed. SCS's turnover in 2005 had been reported as approximately USD 8 million, with USD 1.6 million EBITDA.

Coverage of Dagsbrún

Mar 2006

Wyndeham Press Group

Dagsbrún acquires British printing solutions company Wyndeham Press Group plc for a total consideration of GBP 80.6 million. The strategic rationale of the acquisition is to diversify income streams and to gain a foothold in the UK market for further operations. The Wyndeham Press Group had been established in 1991 and has developed through acquisitions and organic growth into one of the UK's largest printing companies. Dagsbrún seems to have overestimated Wyndeham's value, as the acquisition's value was written down by an amount of GBP 11.5 million in Dagsbrún's 9-month financial statement for 2006.

365 Media Scandinavia A/S

Dagsbrún establishes a Danish subsidiary, 365 Media Scandinavia A/S, with the purpose of publishing a free newspaper in Denmark. Eventually, the project becomes a joint venture of several investors, headed by Dagsbrún. The company intends to establish more free newspapers in the Nordic region and possibly in the UK. It has already begun publication of the Danish newspaper Nyhedsavisen.

Sep 2006

Division of Dagsbrún

Dagsbrún is divided into two entities, 365 hf and Teymi hf. The companies are now operated separately and both listed on the Iceland Stock Exchange.

TEYMI

365

The origins of 365 hf and Teymi hf can be traced back to the establishment of Íslandssími hf, an Icelandic telecommunications company, in August 1998. Íslandssími was listed on the Iceland Stock Exchange in June 2001, and two years later it merged with Tal and Halló both telecommunications firms, creating the new Og Fjarskipti hf. The resulting firm's telecoms services were marketed under the dual brand Og Vodafone.

TEYMI	
Market Capitalization	EUR 164 million
Change in Share Price, 2006*	19.2%
Net After-Tax Profit	n/a
*From 20 November 2006	

365	
Market Capitalization	EUR 175 million
Change in Share Price, 2006*	5.96%
Net After-Tax Profit	n/a
* From 20 November 2006	

The next major milestone came at the end of 2004, when Og Fjarskipti bought the media companies ÍÚ and Frétt. The two were collectively named 365 Miðlar ehf, whose operations include many of the largest and historically-significant names in Icelandic media such as the country's biggest newspaper, Fréttabladid. Some smaller acquisitions were made in 2005, but most of the year was spent restructuring the group comprising Og Vodafone and 365. Og Fjarskipti thus became the parent company for both the acquired businesses and telecommunications entity, together forming Dagsbrún hf.

In 2006, the company started an aggressive expansion process. Through acquisitions of several domestic companies and a large British printing solutions company, Dagsbrún tripled its turnover. Domestically, Dagsbrún acquired the security company Securitas, Sena, an importer and wholesaler of the largest brand names in entertainment materials, and Kögun, an IT service and retail company. Kögun had previously made several foreign acquisitions in the field of Microsoft Business Solutions, which are discussed below. At the same time, the company led a joint venture in the Danish media, establishing the free newspaper Nyhedsavisen.

In September of 2006, Dagsbrún announced that the company would be divided into two entities: on one hand, the media company 365 hf, and on the other, the electronic communications and IT company Teymi hf. Furthermore, Hands Holding hf was established as a third entity to take over the Microsoft Business Solutions firms previously owned by Kögun hf. This was done in order to sharpen the strategic focus of those different sectors of Dagsbrún's operations. 365 and Teymi are both listed on the Iceland Stock Exchange.

Did You Know?

- Teymi is the Icelandic word for *team*.
- Stod 2 (Channel 2), one of the television channels owned by 365 hf, was the first privately owned station to broadcast in Iceland, starting in 1986.
- Thordis Sigurdardóttir, former Chairman of the Board of Dagsbrún and present Chairman of the Board of Teymi, is the only female Chairman of the Board of a company listed on the Icelandic Stock Exchange.

Major Foreign Investments and Acquisitions 2001-2006

Jul 2003

Linea Orthopedics AB

Össur acquires Linea Orthopedics AB, a Swedish manufacturer of cosmetic prosthetics covers. Total consideration for the company is USD 0.7 million. The company makes a good addition to Össur's prosthetic product portfolio.

Sep 2003

Generation II Group INC

Össur acquires 100% of US developer and manufacturer of orthotic knee braces, Generation II Group Inc. for a total consideration of USD 31 million. The transaction, financed through available funds, represents a milestone for Össur, accelerating the company's entry into the bracing and support segment of the orthopedics market. Estimated turnover for the year ending September 2003 is USD 20 million.

Dec 2004

Sale of Mauch Inc

Össur sells subsidiary Mauch Inc, based in Dayton, Ohio, for a consideration of USD 1.6 million. The company decides to withdraw from its Dayton operation, diffusing its prosthetic manufacturing among existing operations.

Jul 2005

Advanced Prosthetics Components

Össur acquires its Australian distributor, Advanced Prosthetics Components, for a consideration of USD 1.2 million. The acquisition strengthens Össur's position in the Australia and Pacific region.

Royce Medical Holdings

One of the biggest steps in the company's history is taken when Össur signs an agreement for the acquisition of all outstanding shares of Royce Medical Holdings Inc for USD 216 million. It is Össur's largest acquisition to date, and contributes heavily to Össur's strategic growth plan to increase focus on the bracing and support segment of the orthopedics industry. The acquisition, paid for through debt financing and a rights issue, greatly improves the company's operating efficiency by taking advantage of each unit's sales and distribution network.

Royce Medical, founded in 1968, employs 321 people at the time of acquisition. The company generates sales of approximately USD 68 million in the twelve-month period ending June 2005, with EBITDA of USD 18 million.

Dec 2005

Innovative Medical Products Holdings

Össur acquires Innovative Medical Products Holdings Ltd, a British orthopedic products company, for a price of USD 18.5 million. Össur's previous acquisition of Royce Medical had been over-financed, and leftover funds are used to finance this transaction. The acquisition allows Össur to advance further into the orthopedics market and IMP's line of products fits well with that of Össur. At the time of acquisition, IMP, established in 1980, has approximately 90 employees. Expected turnover in 2005 is USD 14 million with an estimated EBITDA of USD 2.8 million.

GBM Medical AB

Össur acquires GBM Medical AB, a distributor of orthopedic products, for 1.9 million US Dollars. The acquisition strengthens Össur's marketing and distribution network in the Nordic region.

Jan 2006

Innovation Sports INC

Össur acquires Innovation Sports Inc, a US-based designer and manufacturer of ligament braces for a total consideration of USD 38.5 million. Funding is provided by Kaupthing Bank, with repayment due in 7 years. The transaction adds new products to the company's portfolio and provides improved operating efficiencies for Össur. Innovation Sports, established in 1983, is based in California and has 150 employees at the time of acquisition. Innovation Sports' estimated revenue is USD 19 million, with an EBITDA of roughly USD 3.6 million for 2005.

Dec 2006

Gibaud Group

Össur acquires the Gibaud Group in France, a local leader in the design, manufacture, and distribution of medical devices. The transaction, valued at approximately USD 132 million, is bridged financed. An equity offering is planned for 2007.

The acquisition is Össur's second-largest and enables an increased presence in the non-invasive orthopedics industry, in an important European market. Gibaud, established in 1890, employs 361 people at the time of acquisition. The company generates sales of approximately USD 54 million in the twelve-month period ending June 2006, with an EBITDA of over USD 11 million.

Company Overview:

Össur hf was established in 1971 by Össur Kristinsson, a prosthetist, together with several disability organizations in Iceland. At the time, the founder of the company had just completed his prosthetics studies in Sweden. Being a prosthetic user himself encouraged him to seek ways to improve the quality of the products offered in the prosthetic market.

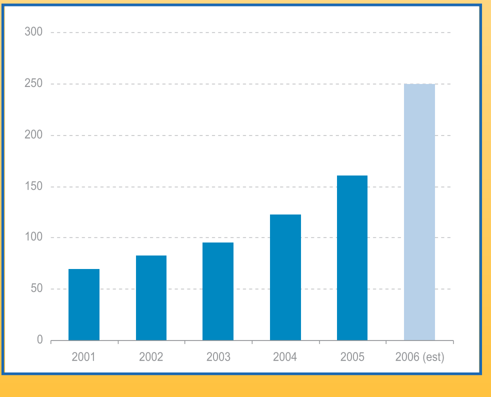
Market Capitalization	USD 483 million
Change in Share Price, 2006	-0.4%
Net After-Tax Profit*	USD 8.1 million
*First 9 months of 2006	

In the beginning, Össur hf operated as a busy clinic, leaving little time to work on new designs. That changed over time, and in 1986 Össur was granted its first patent.

The company gradually became one of Iceland's most progressive and pioneering companies. The last few years have seen Össur evolve from an ambitious prosthetics company to a major orthopedics business. During that time, a number of very successful acquisitions have complemented the company's organic growth and widened its horizons. The main acquisitions prior to 2001 were those of Flex-Foot Inc. and Century XXII Innovations Inc., a designer and manufacturer of prosthetic feet and knees, respectively, both based in the United States. The company was listed on the Icelandic Stock Exchange in 1999.

Today, Össur employs a staff of around 1550 in 12 locations around the world. Headquartered in Iceland, the company has operations in the Americas, Europe and Asia.

Sales (millions of USD)



Did You Know?

- Many of Össur's key inventors design products for personal reasons, just like Össur Kristinsson himself.
- Össur was selected as a 2006 Technology Pioneer by the World Economic Forum and participated in the WEF annual meeting in Davos.
- If the amputee athletes in Team Össur had been a country, the team would have placed seventh at the 2004 Paralympic Games in gold medal wins and eleventh in overall medal placements.

2.2 Private Companies Active In Foreign Investments

- BAUGUR GROUP
- FONS
- NORVIK
- SAMSKIP

Baugur Group
Summary of Foreign Holdings

Real Estate:
Nordicom
Keops
Atlas Ejendomme

Property Funds:
WCC Europe
(lxb) properties
Prestbury I
Giant propco

Fashion Retail:
Criminal
All Saints
DAY Birger et Mikkelsen
Jane Norman
Whistles
MK One
Principles
The Shoe Studio Group
Karen Millen
Oasis
Coast
Steinunn
Warehouse
Magasin du Nord
Illum
House of Fraser
Matthew Williamson
PPQ

Food Retail:
Julian Graves
Iceland
Whittard of Chelsea
Woodward Fooservice
DBC
Booker
SMS

Other Retail:
Waage
Watches of Switzerland
Goldsmiths
Wyevale Garden Centers
Hamleys
Mappin & Webb
Merlin

BAUGUR GROUP

Company Overview:

The history of Baugur Group can be traced back to the establisment of Bónus, an Icelandic grocery retailer, in 1989. It started off as a family business and operations grew considerably during the next few years as several new Bonus stores opened.

In 1992, the owners of Hagkaup, an Icelandic retailer, acquired a 50% share in Bonus. In the following year, Hagkaup and Bónus established a joint purchasing company named Baugur and eventually the companies merged under that name. Baugur, listed on the Icelandic Stock exchange in 1998, acquired several other Icelandic retailers before the company started its advance on foreign markets.

In 2002, proposals were approved to change the name of Baugur to Baugur Group hf and to rearrange the company's organizational structure. In May 2003, Mundur ehf, a holding company mainly owned by the original Bónus family, acquired all the outstanding stock in Baugur Group and soon after, the company was delisted from the Iceland Stock Exchange.

Since then, Baugur's operations have changed dramatically, primarily emphasizing influencial investments in the Danish and British retail markets. The company has also been active on the real estate markets in those countries, especially in Denmark.

Today, Baugur Group's main policy is to focus on investments in the retail, service and real estate sectors, in Iceland and northern Europe. The company seeks out shares in companies that have a strong market position, yet also show potential for further growth, and are run by a strong team of managers interested in cooperating with the company.

Companies related to Baugur Group employ close to 74,500 people worldwide in over 3,700 stores. Annual turnover for companies in which Baugur Group is a major shareholder totaled GBP 8.7 billion in 2005.

The foreign advance of Baugur Group has been extensive, and its status as an unlisted company means that the demand for detailed information is not as strong. Therefore, the following coverage of its acquisitions will include only the company's main investments, and a brief enumeration of its foreign investments is provided.

Did You Know?

- The CEO of Baugur Group, Jón Ásgeir Jóhannesson, said that the Bill's Dollar Stores venture was probably the most expensive business course he had ever taken.
- Baugur is an old Icelandic word for ring.
- Bónus was established in 1989, with only USD 10,000 of borrowed cash.

Major Foreign Investments and Acquisitions 2001-2006

Arcadia

Baugur acquires a 20.1% share in British fashion retailer Arcadia, for a total consideration of GBP 65 million. In addition, Baugur takes over its outstanding debt of GBP 23 million. The transaction is financed with shares in Baugur. Arcadia is at the time the second-largest fashion retailer in Britain, with over 1,800 stores and a gross turnover of GBP 1.9 billion in 2000.

Originally, the investment was intended as a long-term relationship, but after an unsuccessful attempt to buy several brands from Arcadia, Baugur decides to sell its holdings in 2002, with a realized profit of GBP 50 million. This provides a stepping-stone for the further advance of Baugur in the UK retail market.

Goldsmiths

In alliance with other investors, Baugur Group acquires a 55% share in the British jewelers' retailer Goldsmiths for an undisclosed sum, though the market value of the share is GBP 60 million. The transaction is financed with a credit facility from the Bank of Scotland and Landsbankinn. Goldsmith has a long history, having been founded in 1778, and is the second-largest jewelers' retailer in the UK with over 165 stores around the country. Gross turnover in 2003 had been reported as GBP 165 million.

2001	Nov 2003	May 2004	Jun 2004

Bill's Dollar Stores

A milestone in the company's history comes when Baugur, along with other investors, acquires the US grocery retailer Bill's Dollar Stores for a total consideration of USD 60 million. The chain operates, at the time, over 410 stores in 13 states in the Southeast of the United States. Baugur's goal to turn around the operations of the company, which had been struggling in previous years, proves unsuccessful and in 2003 Baugur will sell all its assets in the US for a total loss of approximately USD 40 million.

Oasis Stores

Baugur acquires a 60% stake in the British fashion retailer Oasis Stores for a total consideration of GBP 157 million. Oasis operates close to 300 stores within the UK and dozens of others around the world under two different brand names: Oasis and Coast.

Karen Millen

Oasis Stores, in which Baugur Group owns a majority stake, acquires British fashion retailer Karen Millen. The purchasing price of approximately GBP 120 million is financed with cash and shares in Oasis Group. After the transaction, Baugur Group's share in the company is 44%. The investment provides synergies on several levels with a minimum overlap in the customer base. In addition to the Karen Millen brand, the operations of Whistles are included in the transaction. Karen Millen was established in 1980 and operates over 100 stores across the world, with an estimated turnover in 2004 of GBP 150 million.

Magasin du Nord

Baugur Group acquires a 42% share in the Danish fashion retailer Magasin du Nord for an estimated consideration of DKK 550 million. The investment is made in collaboration with other Icelandic investors, who buy the remaining shares. Magasin du Nord was founded in 1868 and operates 8 superstores at the time with a gross turnover in 2003 of approximately DKK 2.7 billion.

House of Fraser

Baugur Group leads a consortium that acquires all shares in British fashion retailer House of Fraser. Total consideration for the shares is approximately GBP 351 million, which represents an enterprise value of approximately GBP 453 million. The acquisition is made through an investment vehicle, Highland Acquisitions Limited, in which Baugur Group owns a 35% stake. This is not Baugur's first investment in House of Fraser. In September 2004, Baugur sold a 10.1% share in the company for a consideration of GBP 27 million, realizing profit of approximately GBP 10 million.

House of Fraser is one of Britain's largest retailers of designer brands. It operates 61 department stores across the UK and Ireland under several trading names. For the year 2005, House of Fraser had reported gross sales of GBP 910.2 million and a profit before tax and exceptional items of GBP 26.1 million.

Big Food Group

Baugur Group makes its largest investment so far when it acquires British retailer Big Food Group along with other investors. After the acquisition, Baugur Group owns a 43% share in the company. Total consideration of GBP 670 million includes the transaction costs as well as refinancing cost, and the investors put an extra GBP 250 million into operations. The company is divided into three different entities: the brands of Iceland and Bookers are now operated separately, and real estate operations are put into a third entity. Big Food Group was created in 2001, with the merger of Booker and Iceland. Gross turnover in 2004 is approximately GBP 5 billion and the company operates close to 1,000 stores with over 40,000 employees at the time of acquisition.

Jane Norman

Baugur Group acquires a 40% share in the British Fashion retailer Jane Norman for a total consideration of GBP 58.5 million, financed with a credit facility underwritten by Kaupthing Bank. The investment is made in cooperation with the management team of Jane Norman, a company established in 1952 and operating 95 stores at the time. Gross turnover in 2004 had been GBP 70.7 million with an EBITDA of GBP 14.3 million.

Major Foreign Investments and Acquisitions

Feb 2005

Big Food Group

The consortium Giant Bidco, led by the Icelandic Baugur Group and including Fons, acquires British retailer Big Food Group. The total consideration of GBP 670 million includes transaction costs as well as the refinancing cost. Additionally, investors put an extra GBP 250 million into the operations. Big Food Group, created in 2001 with the merger of Booker and Iceland, reports gross turnover in 2004 of approximately GBP 5 billion.

Mar 2005

Sterling

Danish low-cost airline Sterling is fully acquired for a consideration of DKK 435 million. The investment furthers Fons's presence in the fast-growing travel industry, as Fons already owns the low-cost airline, Iceland Express. Sterling, founded in 1994, is the largest low-cost airline in the Scandinavian area, with annual turnover of DKK 3.5 billion in 2004.

Jul 2005

Maersk Air

Fons acquires Danish low-cost airline Maersk Air for an undisclosed sum. The company had been running considerable losses. With the addition of Maersk Air, Fons's airlines operate a combined fleet of 32 jets, employ approximately 2,000 people and have an estimated gross turnover of DKK 5 billion in 2005. The company is merged with Sterling and operations are restructured significantly.

Aug 2005

FlyMe

Fons acquires 11% of Swedish low-cost airline FlyMe for an estimated consideration of SEK 14 million. The shares allow Fons and affiliates to control over 30% of voting power in the company. FlyMe is one of the largest low-cost airlines in Sweden, operating five jets. Shares are later sold as a result of disputes with the main stakeholder.

Oct 2005

Sale of Sterling

Danish low-cost airline Sterling is sold shortly after being merged with Maersk Air for a performance-linked consideration of DKK 1.5 billion that can increase or decrease by up to DKK 500 million, based on the company's EBITDA in the following year. Part of the transaction is paid with FL Group shares totaling DKK 400 million, the rest with cash.

Dec 2005

Whittard of Chelsea

Fons and Baugur Group acquire Whittard of Chelsea for an estimated consideration of GBP 21.5 million. Whittard is the UK's largest fine tea and coffee retailer, trading through over 120 stores.

Jan 2006

Ticket Travel Goup

Fons acquires a 12% stake in Swedish travel agency Ticket Travel Group for an estimated consideration of SEK 40 million. The share is gradually increased over the year, reaching 29.3% in December.

Mar 2006

Hekla Rejser

Scandinavian travel agency Hekla Rejser is acquired for an undisclosed sum. Expects turnover in 2006 is SEK 100 million.

Jun 2006

Hamleys

Fons acquires a 35% share in British toy retailer, Hamleys, for an undisclosed amount. There are several structural changes ahead in the company, which Fons feels they can capitalize on.

Sep 2006

Astraeus

Fons acquires a 51% share in British low-cost airline Astraeus for a total consideration of GBP 6 million.

Dec 2006

Sale of Assets

Fons sells its shares in Ticket Travel, Hekla Rejser, and Astraeus in a transaction whose financial details are not disclosed. The shares are sold to a newly established leisure company of which Fons owns 44%, Northern Travel Holding. The company is funded with a mixture of debt and equity, the latter amounting to EUR 121 million. Northern Travel will also include low-cost airlines Sterling and Iceland Express. Estimated annual turnover of the companies forming Northern Travel will be approximately EUR 1.3 billion in 2006.

Company Overview:

Fons is a holding company owned by two Icelandic private investors. Its origins lie in another holding company, Fengur, which was established in a restructuring of the Icelandic fruit and vegetable wholesale market. Since Baugur was originally founded as a grocery retail chain, it may not come as a surprise that Fons has cooperated with them on several projects. Their relationship was originally established over 15 years ago through their mutual business in fruits and vegetables.

Fengur gradually grew through several successful domestic investments, and eventually Fons was established by the two main owners of Fengur.

Fons is an international investment company that focuses on companies with good future growth, as well as restructuring, potential. Fons is an active investor, having made several high-profile deals in recent years, and its investments carry a good deal of influence.

Since Fons is a privately owned holding company, it does not disclose more information about its activities than benefits the company. The coverage of its investments includes those made by Fons and its predecessor Fengur, as well as Talden Holding, which belongs to the same owners as Fengur and Fons.

ACQUISITIONS BY HOLDING COMPANIES WITH SAME OWNERSHIP

Fengur acquires Julian Graves

Fengur acquires a 20% share in the British health snacks retail chain Julian Graves for a total consideration of GBP 2.84 million in a transaction made in affiliation with Baugur Group, which acquires 60% of the company. Julian Graves, founded in 1987 and operating approximately 200 stores at the time of acquisition, offers good cash flow and a strong management team, making it a good investment opportunity for the price offered. Estimated turnover in 2003 is GBP 35 million, with EBITDA close to GBP 3.5 million.

December 2003

Talden Holding aquires Woodward Foodservices

Talden Holding acquires a 42% share in Woodward Foodservices for an undisclosed sum financed by Lloyds TSB bank. The company supplies a wide range of products, including fresh fish and meat, as well as frozen, chilled and ambient food to restaurants, pubs, hotels and schools across the UK. Through organic growth and the acquisition of DBC Foodservice, the company has grown to become the UK's third-largest food service company. Woodward has 1900 employees and 28 stores in the UK.

August 2005

Major Foreign Investments and Acquisitions 2001-2006

SIA CED

Sep 2003

Norvik acquires Latvian timber producer SIA CED for an undisclosed sum. The company operates as a subsidiary of Byko-Lat and provides wood-processing services. At the time of the acquisition there are 255 permanent employees working in the SIA CED Plant.

Wayland Timber Products

Nov 2004

Norvik purchases British Wayland Timber Products Ltd for an undisclosed sum as part of its strategy to advance in the UK timber market. The company is a wholesaler and distributor of processed timber products, with approximately 40 employees at the time of acquisition. Estimated turnover for the year 2004 is EUR 9.5 million.

Continental Wood Products Ltd

Aug 2005

Norvik acquires Continental Wood Products Ltd, one of the largest importers of timber to Britain from the Baltic countries. The financial details of the transaction are not disclosed, but the acquisition complements previously acquired retailer, Wayland Timber, with Continental Wood emphasizing wholesale, shipping and distribution. At the time of the acquisition, Continental Wood employs 60 people. Estimated gross turnover in 2005 is GBP 20 million.

Vika Wood

Sep 2006

Norvik acquires Latvia's largest sawmill, Vika Wood, for an undisclosed consideration. The transaction strengthens Norvik's position in the Latvian timber market significantly, making it the fifth largest timber industry operation in the country. Vika Wood, established in 1995, employs approximately 200 people.

Company Overview:

Norvik's roots go back to 1962, when the hardware store Byko was founded. The company was, and still is, a family-owned business. Byko grew steadily over the next few decades and became the largest home improvement retailer in Iceland. In the year 2000 the holding company Norvik was established to centralize the operations of Byko and other companies owned by the Byko family. The primary shareholder is Jón Helgi Gudmundsson.

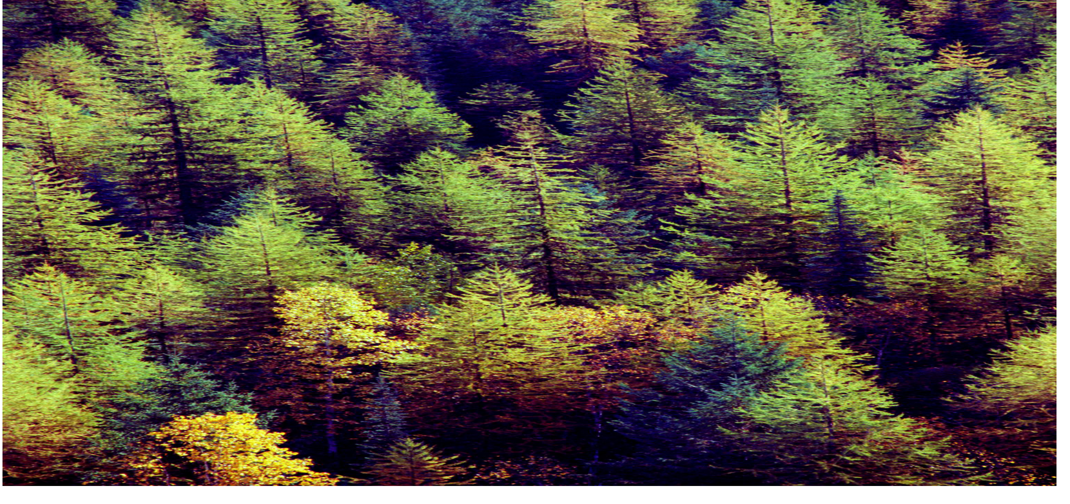
Over the years, Norvik has created a group through acquisitions and new ventures that includes operations in real estate and marketing, retail stores for home appliances, sportswear, and furniture, and Axent, a producer and exporter of Icelandic wool products. Norvik also owns Kaupas Inc, a holding company encompassing 39 domestic grocery stores in three chains.

In 1993, the company began its expansion into foreign markets with the establishment of Byko-Lat, the Latvian arm of Byko, which operates in the capital, Riga, as well as Cesis, Talsi and Valmiera. It specializes in processing and exporting timber products from Latvia and Russia to various European and Asian countries. These operations have been evolving and expanding to other markets and today Norvik runs timber-related companies in Estonia, the UK, and Russia.

Did You Know?

- The land that Byko-Lat was established on used to belong to a collective farm before Byko acquired it.
- Out of six people that sit on Norvik's Board of Directors, three are Jón Helgi's children.
- For several years, old war tanks were used for logging in Norvik's Russian operations.

By 2004, Norvik was Iceland's tenth-largest company with a total turnover of over USD 415 million. All of the companies in the group are 100% owned by Norvik and the company employs nearly 3,000 people.



Major Foreign Investments and Acquisitions 2001-2006

Nov 2003

Van Dieren Maritime BV

Samskip acquires 80% of shares in Dutch logistics provider Van Dieren Maritime BV. Financial details of the transaction are not disclosed, and the remaining stock is retained by the company's management. The acquisition opens up new markets, extending Samskip's presence in the Baltic states and Russia, where Van Dieren operates its main route network. The merge also generates a high level of synergy within both companies. Van Dieren estimates turnover for 2003 at EUR 10 million.

Mar 2005

Geest North Sea Line BV

Samskip makes its largest acquisition ever when Dutch short sea shipping operator Geest North Sea Line BV is acquired, for an undisclosed sum. The formidable deal doubles gross turnover of the company. Financing is secured through an issue of new shares, along with Credit Facility from Fortis Bank. The acquisition allows Samskip to combine Geest's sea services with its own, providing opportunities to gain from synergies on several levels, as the operations fit together with minimum overlap.

Geest, with headquarters in Rotterdam, Netherlands, operates twelve offices on the Continent of Europe, UK and Ireland and has approximately 200 employees at the time of acquisition. Estimated turnover of Geest for the year 2005 is EUR 220 million.

Apr 2005

Kloosterboer Group

Samskip acquires roughly 30% of operations from Dutch company Kloosterboer Group, in a deal whose value remains confidential. The transaction substantially increases Samskip's frozen storage capacity in multiple locations and allows it to strengthen its ability to offer comprehensive global service to the seafood industry.

Kloosterboer is a family-owned company, founded in 1925 as a trader in vegetables. Today, Kloosterboer's three main activities are warehousing, forwarding and stevedoring.

Jul 2005

Seawheel

Samskip acquires UK short sea shipping operator Seawheel for an undisclosed sum. Seawheel's operations merge with those of Samskip and previously acquired Geest, further expanding Samskip's comprehensive short sea container shipping network. The acquisition allows the company to achieve significant economies of scale, reducing costs while offering greater port coverage and sailing frequency. Seawheel, established in 1969, operates 12 container vessels between the UK and the continental Europe and is the main competitor of Geest on those lines. Estimated turnover for 2005 is EUR 145 million.

Sep 2006

TECO Lines AS

Samskip sells its 50% share in short sea shipping operator TECO Lines AS, to co-owner Tschudi Shipping, for an undisclosed sum. Samskip does not consider TECO a good fit with its core strategy, and furthermore, both parties feel that the business would be better developed under one owner.

SAMSKIP

Company Overview:

Samskip originates from the Federation of Cooperatives, Sambandid, which started a shipping company called Samband Line in 1943. This became a limited-liability company in 1991 called Samskip hf, of which Samband was the majority stakeholder with over 85% of share capital.

In 1993, the company underwent a major re-organization, selling non-profitable assets and establishing a new management structure. After a successful turnaround, share capital was increased and sold to new investors. Since then, Samskip has grown steadily, both internally and through acquisitions, opening over 50 overseas offices and broadening its service portfolio to become a leading international transport company.

Today, Samskip offers transport and related services by land, sea and air. It has grown to become one of the largest container transport companies in Europe and now employs approximately 1,400 people working in more than 20 countries throughout the world.

In September 2006, Samskip decided that it would apply the Samskip brand to its entire global operations, thus phasing out the brands of previously acquired companies.

Did You Know?

- Jónar transport, a subsidiary of Samskip, is named after both the CEO and the main owner of Norvik. The company was established by Jón and his cousin, whose name is also Jón, forming the plural Jónar. The company was later acquired by Samskip.
- The name Samskip consists of the Icelandic prefix sam, which translates as "fellow", and the word skip, Icelandic for "ship". Direct translation would therefore be "Fellowships".
- Michael F. Hassing, one of Samskip's two CEO's, is a former Maersk senior executive.

CHAPTER 3

ASSESSMENT OF ICELAND'S ADVANCE

For some, the recent overseas acquisitions made by Icelandic companies have the appearance of "David, taking on Goliath," with comparatively small Icelandic companies growing fast and sometimes acquiring decidedly larger companies abroad. This development has puzzled many foreigners, especially since it was not until quite recently that outsiders took an active interest in the affairs of this small country. To answer the questions that inevitably arise from this scenario, the following coverage will hopefully shed some light on those that remain unanswered after the earlier coverage of the conditions leading up to Iceland's advance abroad.

In order to gain further insight into several matters concerning increased foreign direct investment by Icelandic companies, a telephone survey was set up. In this survey, almost 500 Icelandic business executives were asked a number of multiple-choice questions. The original sample was the executives of 850 Icelandic companies with 10 employees or more. Some of these companies had closed and were therefore removed from the sample, 115 companies did not respond, and 191 were unable to answer the questionnaire, bringing the total number of respondents to 497, or 61.9% of the sample. The results of this survey will be used to explain certain issues regarding the foreign advance of Icelandic firms.

In addition to the telephone survey, interviews were set up with many of the companies referred to in this report. Since the majority of foreign direct investments can be traced to relatively few companies, it was important to gain more specific information from these firms.

3.1 Motives

The Icelandic market is very small in international comparison. To put things in context, there are only 24 companies on the main list of the Icelandic Stock Exchange (compared with 2,012 on the New York Stock Exchange) and the main index, ICEX-15, consists of average prices from only 15 top companies. None of these would be considered major companies in international markets.

Iceland's largest company, Kaupthing bank, has a market capitalization of EUR 7.4 billion, which is close in size to the average firm on the NYSE. Nevertheless, companies of this size are very large in relation to the size of the Icelandic economy. The market capitalization of Kaupthing is close to 60% of the Icelandic GDP, while the market capitalization of Exxon Mobil, America's largest company, equals approximately 3.4% of the US GDP.

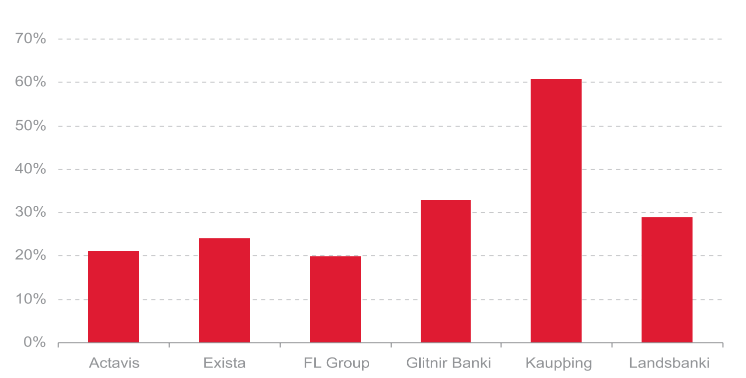


FIGURE 9
MARKET CAP OF SELECTED ICELANDIC COMPANIES, % OF GDP

Source: OMX-The Nordic Exchange Market in Iceland and Statistics Iceland

Figure 9 illustrates how the largest companies in Iceland have outgrown the domestic market and therefore need to seek new markets abroad in order to sustain their growth. It comes as no surprise that the most common answer executives gave when asked why they had invested abroad was "access to new markets," detailed in Figure 10 below.

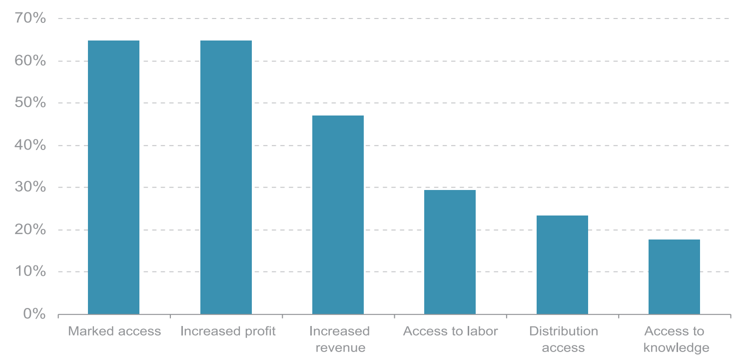


FIGURE 10
MAIN MOTIVE FOR EXPANDING ABROAD

Source: Telephone Survey

Another strong factor limiting the largest companies' domestic growth is the limited size of the workforce. Despite the fact that labor participation in Iceland is among the highest in the world and the country has one of the highest retirement ages in Europe (official retirement age is 67), the total labor force amounts to just 160,000 people. Additionally, a high employment rate has always been one of the main policy issues in Iceland, resulting in only brief spells of serious unemployment problems in Iceland. As a consequence, the supply of available labor is very limited. Unemployment is currently running close to 1% and the country has had to import a substantial number of workers to meet excessive demand. According to estimated figures from the Directorate of Labor, close to 9% of the total labor force in 2006 were foreign citizens, which is the highest in Europe. The proportion of foreign citizens compared with total population has grown from 1.8% in 1995 to 6% in 2006. The import of foreign workers has proved very valuable for the Icelandic economy. As these figures imply, it is almost impossible for companies in labor-intensive industries to expand their operations in Iceland.

TABLE 2: GROWTH IN NUMBER OF EMPLOYEES

	2000	2006*	% abroad
Actavis	146	10000	94.9%
Alfesca	1700	3500	99.7%
Bakkavör	300	16000	99.8%
Baugur Group	1225	72000	85.2%
Flaga Group	54	210	96.6%
Glitnir Bank	860	1232	24.5%
HF Eimskipafélag	1200	8000	68.1%
Icelandic Group	1255	3293	98.2%
Kaupthing Bank	205	2500	57.9%
Landsbanki	977	1725	33.9%
Marel	543	1400	72.8%
Norvik	700	3000	43.3%
Samskip	681	1440	54.8%
Össur	112	1300	81.9%

*June 2006

Source: **Respective Companies**

As Table 2 shows, acquiring foreign firms has allowed companies with a high demand for labor to grow much faster than they could have in Iceland. The aggregate growth in these companies' number of employees is almost equal to the total labor force in Iceland.

Another factor that is likely to have motivated Icelandic firms to expand their operations abroad is to diversify risk; it is a well-known maxim that investors should not keep all their eggs in the same basket. The same applies to companies; in order to diversify their income streams, acquisitions in foreign markets are an optimal strategy. A prime example of this is the banks, which have expanded their markets through strategic acquisitions. Some companies have evolved even further to become multinational companies with Icelandic owners. As Table 3 shows, the majority of the largest Icelandic companies have more than half of their income coming from abroad.

TABLE 3: % OF TURNOVER ORIGINATING OUTSIDE ICELAND*

	Proportion		Proportion
Actavis	95%	Icelandic Group	98.19%
Alfesca	99.79%	Kaupthing Bank	57.99%
Bakkavör	99.89%	Landsbankinn	33.89%
Baugur Group	82.89%	Marel	72.79%
FL Group	25%	Norvik	43.29%
Flaga Group	96.59%	Samskip	54.80%
Glitnir Bank	24.49%	Össur	81.89%
			*as of Nov 2006

Source: Respective Companies

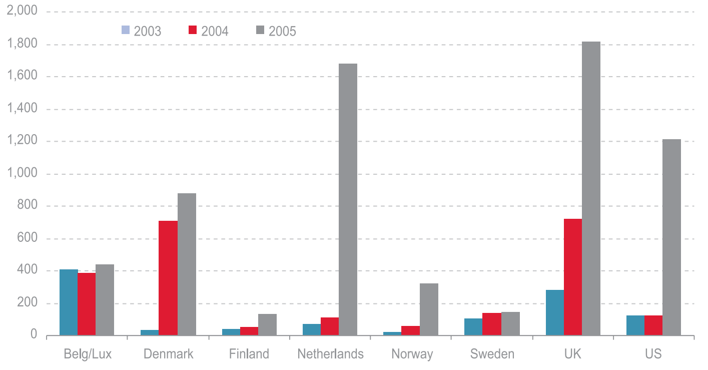
Some companies started their international operations when they were comparatively small and used acquisitions to grow externally. Had they been limited to a specific sector, this tactic would have been impossible to implement domestically. The strategy has proved very successful for certain companies, like Actavis. The company started as a small generic pharmaceutical producer, but through multiple acquisitions has managed to place itself among the leading companies in the world in its sector.

It is certain that an economy of 300,000 people does not offer the market opportunities that specialized and progressive companies consider prosperous and satisfactory for future growth. Therefore, it can only be considered a natural evolution that they seek to expand their operations abroad to ensure a profitable future.

3.2 Main Markets

Even though the foreign advance of Icelandic companies has been extensive, it has been limited to certain markets. Many companies have defined Northern Europe as their home market and their investment strategy has followed this. As Figure 11 shows, close to 93% of Iceland's accumulated foreign direct investments is distributed among only eight countries, a proportion that has even been increasing in recent years. These main markets are the Scandinavian countries, the United Kingdom, the United States, the Netherlands, and Luxemburg.

FIGURE 11
GEOGRAPHICAL DISTRIBUTION OF ICELANDIC FDI



Source: Central Bank of Iceland

The Netherlands and Luxembourg belong to the group for different reasons. An increasing number of investors have been moving their stock portfolios to holding companies in these two countries in order to lower their tax burden. The main motive for such asset transfers is that despite Iceland's favorable tax system, capital gains on assets are taxed. Both the Netherlands and Luxembourg offer certain features in their tax structures that make them more advantageous than Iceland. A double taxation treaty applies to both countries, so the profits of the holding companies can be brought back to Iceland without additional tax payments. The sharp increase of FDI in the Netherlands between 2004 and 2005, for example, can be attributed in large part to the transfer of Exista's stock assets to its Dutch subsidiary.

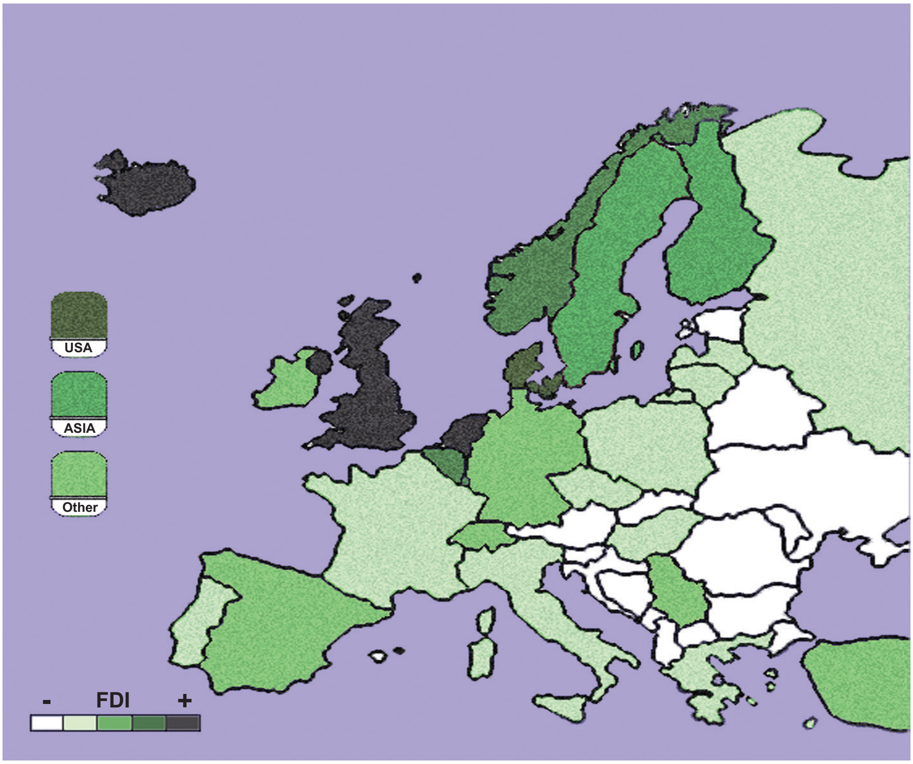
The US market also stands out in this process of expansion. Until the year 2005, the American share of accumulated Icelandic FDI was fairly low. The sudden increase in 2005 is attributable to a few large acquisitions made by the largest Icelandic companies, which, as mentioned above, represent a substantial proportion of the total investments made by the country. In 2005, Actavis acquired the generic pharmaceutical companies Amide Pharmaceutical and Alpharma for a total consideration of USD 1,310 million. During the same year, Össur acquired Royce Medical Holdings for a total consideration of USD 216 million. The increase in the accumulated FDI in the United States is therefore almost solely a result of these three investments. Overall, the main markets targeted by Icelandic firms' foreign advance are the United Kingdom and the Scandinavian countries (mainly Denmark).

There are several reasons why those countries are an attractive option for Icelandic investors, most importantly their geographical location and familiar business and social culture. The countries have robust and stable economies and strong infrastructure, which limits the risks of investing there.

Geographically, the United Kingdom and the Scandinavian countries are close to Iceland. The most frequent destinations for Icelandic airlines are the capitals of the UK and Denmark: London and Copenhagen, which has made these countries very accessible to Icelandic executives and investors.

Several companies have explained their preference for these countries by citing past experience and knowledge of the market. Even more important are the relationships and business networks that exist between Iceland and those countries, a factor that undoubtedly increases the probability that investments succeed. The banks have often started their overseas operations in these countries with an office or a small franchise in the region and later, when they have gained knowledge and developed relationships in the market, pursued their expansion by acquiring a local bank.

FIGURE 12: GEOGRAPHICAL DISTRIBUTION OF ICELANDIC FDI



Another very important factor is languages: English and Danish are taught in elementary and secondary schools in Iceland. English is spoken fluently by most of the population, and people generally have a basic knowledge of another Scandinavian language. Along with the US, Icelanders who study abroad most commonly seek their education in Denmark and the UK.

Companies in different fields also base their investment decisions on how compatible the market is. As an example, Glitnir Bank has specialized in serving the fishing industry. It follows, therefore, that it chose to establish itself in Norway, since the Norwegian fishing industry is relatively large and similar to that of Iceland. By targeting a compatible market in Norway, the bank was able to take advantage of its existing knowledge to ensure that the investment is profitable.

The fact that London is the major European financial center is a further advantage to investing in the UK. The business environment is very favorable and the legal framework sound. Since London is an international city, the attitude towards foreigners and foreign investments is quite positive. This factor, on the other hand, has been more contentious in Scandinavia. The attitude towards foreign investments is comparatively more negative and the business environment has shown a lack of flexibility and efficiency. Additionally, the Danish media has been rather unfriendly and at times unprofessional in their coverage on the wave of Icelandic investments in Denmark.

It remains to be seen whether or not Iceland will continue to focus on these markets in its foreign investments. Nevertheless, it is highly likely, when the previously mentioned factors are considered, that Northern Europe will continue to be the main market area for Icelandic investors and companies.

3.3 Strengths and Weaknesses

The current foreign expansion of Icelandic businesses has not only been extensive, but also very diverse. The companies that have been most actively involved in foreign direct investments come from various sectors and have diverse investment policies, both in terms of time frame and strategic goals. Therefore, it is hard to generalize about whether or not this advance will succeed. There are certain attributes of the Icelandic business environment that are likely to contribute to the strength and stability of the foreign advance, as well as others that threaten the likelihood of success.

TABLE 4: INDUSTRIES OF SELECTED COMPANIES

Company	Industry	Company	Industry
365	Media & Entertainment	Glitnir Bank	Commercial and Investment Bank
Actavis Group	Generic Pharmaceuticals	HF Eimskipafélag	Transportation & Logistics
Alfesca	Convenience food	Icelandic Group	Seafood
Atorka Group	Investments	Kaupthing Bank	Commercial and Investment Bank
Bakkavör Group	Convenience food	Landsbanki	Commercial and Investment Bank
Baugur Group	Retail & Real Estates	Marel	Equipment for Food Processing
Exista	Financial Services	Samskip	Transportation & Logistics
FL Group	Investments	Straumur-Burðarás	Investment Bank
Flaga Group	Sleep diagnostic	Teymi	IT & Telecommunications
Fons	Investments	Össur	Prosthetic & Orthodic Devices

The diversity of the main players in Icelandic FDI outflows is substantial, even if their number is not. As Table 4 shows, the respective companies are situated in quite diverse industries. This limits the possibility that difficulties in one sector or industry will affect the spectrum of Icelandic companies abroad as a whole. In addition, the companies have diversified the markets in which they invest, so difficulties in a given economy will have less of an impact on a company's overall profitability.

One of the main strengths of many Icelandic companies is that they target small, highly specialized global niches and implement an international strategy from their early stages. Good examples of companies that belong to this group are Marel, a high-tech food processing equipment developer, and Össur, an orthopedic design firm. Although they did not operate globally at their inception, the nature of their products is so specific that in order to thrive and succeed it was important for them to gain a considerable share in the global demand for their products. Through strategic foreign acquisitions and innovative design, both companies have placed themselves among the global leaders in their respective industries. Many other Icelandic companies fit this profile. Actavis, the generic pharmaceutical producer, and Flaga Group, a sleep-diagnostics equipment producer, as well as Baugur in the retail industry and FL Group in the airline industry have also successfully specialized in regards to investment projects.

Another characteristic that gives strength to Icelandic companies in their advancement into foreign markets is their high flexibility and adaptability. Coming from a small and kaleidoscopic economy like the Icelandic one is a good preparation for dealing with unpredictable circumstances. In historical context, the financial results of Icelandic companies have been highly influenced by external factors such as inflation, a volatile exchange rate, low unemployment, and changes in commodity prices. Companies have therefore developed a small hierarchy in order to improve communication channels and respond quickly to such unpredictable events. This short chain of command makes decision-making much more efficient than is possible with more traditional arrangements.

One of the attributes that can work both in favor of and against the success of Iceland's global advance is the young age of many Icelandic executives. According to Forbes Magazine, the average age of CEOs in the United States is close to 49 years. In comparison, the average age of CEOs from the companies listed on the Icelandic Stock Exchange is 44.5 years. If the sample is limited to those companies that have been actively involved in foreign expansion, the average goes down to 42 years. Even more interesting is that the average age of the Chairmen of the Boards of these companies is only 45 years. The reason for this youth in upper management is the generational shift that took place during the recent era of privatization of the Icelandic economy.

This new generation of executives has certain advantages that have proven very useful for the foreign advance. The international education of many in the group, which is one of the sources that led to this development, has been mentioned previously. Additionally, these younger executives have shown more entrepreneurial initiative than their predecessors, and their style of communication is less formal, which increases the pace of business negotiations. The major drawback to the youth of Icelandic executives is the potential perception of their lack of experience in the eyes of partners and shareholders alike.

Another important difference between the generations is their respective attitudes toward risk. The older generation of executives tends to be more conservative and risk averse in their decision-making than the younger generation. The scope of investments made by younger executives has been comparatively larger than that of companies with more conservative leaders. Many Icelandic firms have followed an investment strategy that allows them to grow significantly in size through individual investments. Instead of buying a small, unknown foreign entity as a stepping-stone into a foreign market, they have aimed for well-established companies with a strong customer base. Generally, this is a sensible investment strategy, but if the Icelandic companies overreach in their efforts, the consequences can be serious.

The main weakness of the Icelandic business environment lies in the scarcity of both people and firms. The limited number of people obviously leads to a limited supply of other things; skilled executives and specialized employees are no exception. This problem has been resolved in most cases by using the experience of local experts in acquired foreign companies instead of assigning Icelandic people to the job, a practice that has proved to be successful for being culturally sensitive. Similarly, Icelandic companies have also increasingly employed foreign specialists as advisors in the preparatory stages of foreign investments.

Another weakness, which is mainly a result of the size of the economy and the low number of listed companies, is cross-ownership. Even though it has been decreasing substantially recently, there are still cases where the connections among various Icelandic companies are closer than preferred. There are two main reasons for this. Firstly, it has proved hard for many Icelandic companies to get foreign investors to purchase shares, mostly due to tax barriers and the volatility of the ISK. The recent merger of the Icelandic Stock Exchange with the OMX Nordic exchange will surely help improve on the latter, allowing companies to list their shares in euros. The second reason for excessive cross-ownership has to do with the low number of sizable companies in Iceland. If a strong investor wants to create a domestic portfolio[1] consisting of firms from different industries, the options are relatively limited. In such a small society, cross-ownership can therefore be considered inevitable to a certain degree.

There are several other advantages of the Icelandic economy and its people worth mentioning, that give reasons for optimism for the future. Iceland is an advanced country with high-quality institutions, such as fully-funded pension funds that play an important role as investment institutions. In global rankings, Iceland places fifth in economic freedom, first in terms of the lowest corruption, seventh in terms of competitiveness, first in the percentage of population connected to the Internet (ADSL or ISDN), and first in freedom of the press. These rankings, however arbitrary, clearly illustrate the strength of Iceland's government and institutions.

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1 the investor might prefer to do this because of a more familiarity with the domestic market than the foreign one

Furthermore, Icelandic GDP per capita (adjusted for PPP) ranks fifth-highest in the world, longevity is the highest for females and second highest for males, unemployment is almost non-existent, net government debt is almost nil, labor force participation among older workers is the highest in the world, and participation for women is the highest in the OECD (almost 80%, compared with 56% on average in the OECD). The nation is relatively young and its fertility rate is among the highest of Western countries.

All of these factors, along with general flexibility and adaptability, make the country and its corporations better equipped than most to handle relatively large investments. The success of many Icelandic businesses is obviously more dependent on international conditions than ever before, but at the same time, risk has been diversified throughout this process of globalization.

3.4 Successes and Failures

It is a well known fact in business that increased market share or enlargement of the balance sheet should never become the primary object of a company. In the end, it is always profitability that matters the most. Therefore, it is fair to wonder whether these foreign investments are actually paying off for Icelandic businesses. An evaluation of the profitability of the total wave of investments during recent years is beyond the scope of this text. Nevertheless, examples can be taken of both successful and less successful projects that have been undertaken during this time.

During the spring of 2001, Baugur, along with other investors, acquired the US grocery retailer Bill's Dollar Stores for a total consideration of USD 60 million. During that time, the company was struggling and had been operating at a loss for some time. Baugur's goal was to gain a foothold in the large US market and turn around the operations of the Bill's Dollar Stores. The venture turned out to be unsuccessful and two years later Baugur Group sold all its assets in the US for a total loss of approximately USD 40 million. The CEO of Baugur Group, Jón Ásgeir Jóhannesson, described the Bill's Dollar Stores period as "the most expensive business class [he] had ever taken." Despite the cost, it may very well have been beneficial for Baugur to run into this obstacle, because since then, its investment strategy has been much more successful. Instead of acquiring companies in financial difficutly, Baugur Group now primarily looks to companies whose operations have been a success and aims to cooperate with the existing managers of acquired companies. Many of its recent investments have been very successful and have returned substantial profit for the company.

Another example of an investment that turned out to be unprofitable was the acquisition of the British printing solution company Wyndeham. Dagsbrún acquired all shares in the company for a total consideration of GBP 80.6 million during the spring of 2006. The strategic rationale of the acquisition was to diversify income streams and to gain a foothold in the UK market for any further operations. Dagsbrún seems to have overestimated the value of Wyndeham, considering that in its 9-month financial statement, the value of the company had been written down by GBP 11.5 million.

In December, new shares were issued in Daybreak Holdco, the holding company of Wyndeham, and the share owned by Dagsbrún (currently 365 hf) decreased to 34% of total shares.

To provide an example that reflects both success and failure, the acquisition attempt that Actavis Group made for the Croatian generic pharmaceutical company, Pliva shows characteristics of both. In March 2006, Actavis announced that it had submitted a preliminary proposal to acquire all outstanding shares of Pliva. The original proposal was at a price of HRK 570 per share, valuing Pliva at approximately USD 1.6 billion. This was 35% higher than the average share price at the time.

By acquiring Pliva, Actavis would have become the third-largest generic pharmaceutical company globally. Significantly broader product portfolio along with more efficient overhead, manufacturing and distribution brought by the acquisition would have created enormous synergy opportunities for the company. But there were other companies that saw Pliva as an attractive investment opportunity. After a long and hostile fight with Barr Pharmaceuticals, an American generic pharmaceutical company, Actavis finally withdrew from the price battle over Pliva shares, when they had already raised their offer to HRK 795 per share, and announced that it would not overbid Barr's offer of HRK 820 per share. Actavis's CEO, Robert Wessman, said that despite very strong synergies, the company would not compromise their growth plans by overpaying for acquisitions.

The net cost of this battle for Actavis was approximately EUR 20 million. Nevertheless, the experience raises the credibility of the company's acquisition policy, which will create value for the company in the future.

There have been successful investments across the spectrum of Icelandic business in recent years, generating substantial profits in some cases. During the year 2005, FL Group acquired shares in easyJet, the British low-cost airline, increasing its share eventually to 16.9% by April 2006, when the holding was sold. Total consideration for the sale was GBP 220 million, netting an estimated realized profit of GBP 88 million. The sale followed FL Group's policy to demonstrate active asset management and take profit when it's appropriate.

One more case occurred in October 2006, when Avion Group sold XL Leisure Group (comprised of Excel Airlines, Starline Airline and Starline Europe and all subsidiaries belonging to those companies) for USD 450 million. Avion Group had acquired the companies belonging to XL Leisure Group in 2004-2006. The company was sold to a group of private investors, led by the executive managers of the company, realizing a profit from the transaction of USD 107 million.

This selection of examples does not reflect the foreign advance of Icelandic companies as whole. In most cases companies have been acquired as long term investments, and therefore it is hard to estimate whether the advance has returned economic value to those companies. However, the average share price of the respective companies has grown very fast during this time.

Despite impressive growth and several success stories, however, it must be noted that Icelandic companies have a long way to go before having proved themselves in the global market. In order to fully realize how profitable businesses are, it is necessary to go through a whole economic cycle.

3.5 International Comparison

Even though the outward foreign direct investment of Icelandic businesses has been monumental in recent years, the accumulated FDI is still relatively modest. Comparison with other developed[2] European countries reveals several interesting facts about the scope of this scenario.

As Figure 13 shows, Iceland's accumulated FDI relative to GDP is the fifth-highest among the respective European countries. Well ahead are Norway and Luxembourg, with more than twice the level of FDI than Iceland. Mutual characteristics of the economies with the highest proportion of accumulated outward foreign direct investment are the relative openness of their economies

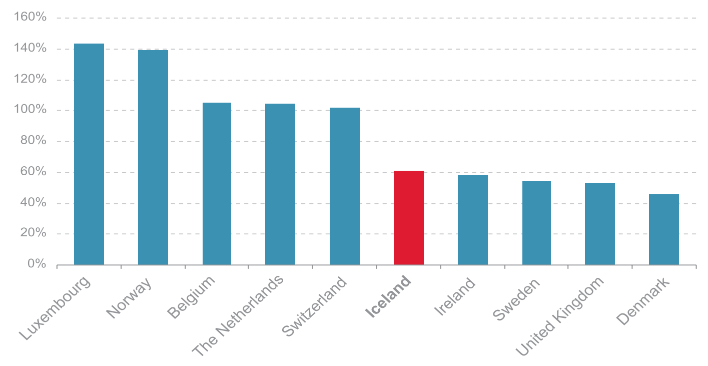


FIGURE 13
HIGHEST OUTWARD FDI STOCK PROPORTION, DEVELOPED EUROPEAN COUNTRIES, 2005

Source: United Nations Commission on Trade and Development

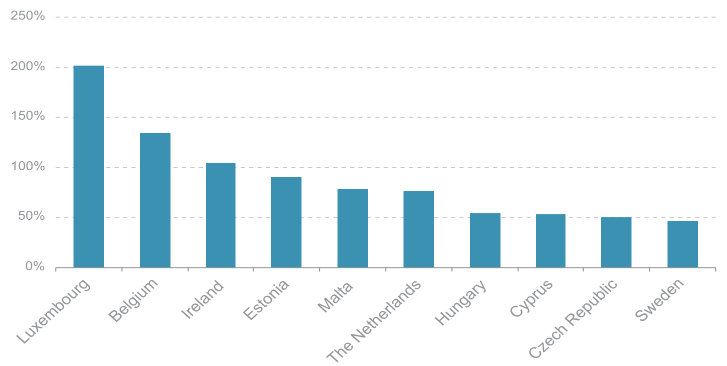


FIGURE 14
HIGHEST INWARD FDI STOCK PROPORTION, DEVELOPED EUROPEAN COUNTRIES, 2005

Source: United Nations Commission on Trade and Development

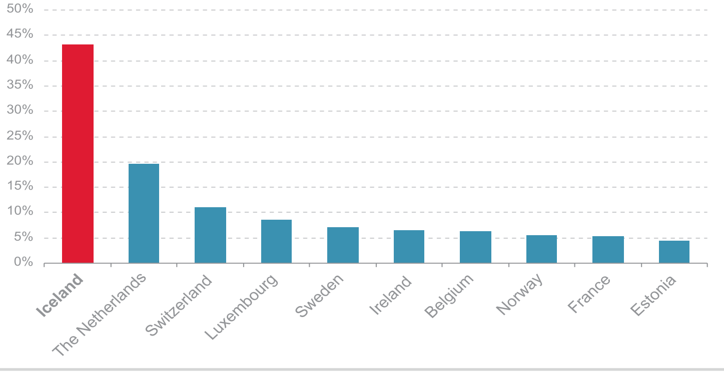
2 According to the definition of United Nations Conference on Trade and Development (Unctad)

and a high average income. These are also comparatively small economies, apart from the United Kingdom. The figures indicate that compared to other small, open and developed countries, it would be a natural development of the accumulated outward FDI of the Icelandic economy to grow even further.

When the accumulated inward foreign investment of the same group of nations is compared, certain changes are apparent in the ranking. Similar to the list of countries with the highest accumulated outward investment, the highest-ranked economies are all relatively small and open. However, there are many newly emerged economies, with low average income, that rank high among the countries with the largest proportion of accumulated inward FDI. This is natural, as many international investors consider those economies to offer the largest growth opportunities in the upcoming years. In addition, increasing globalization demands that firms move their operations to countries where prices, and subsequently wages, are the lowest in order to minimize costs.

There are several reasons why Iceland does not rank high on this list, despite being a small and open economy. This has to do with high price levels, the volatility of the ISK and certain tax features. The main reasons for the imbalance of inward and outward FDI will be discussed in more detail in the following coverage.

FIGURE 15
HIGHEST OUTWARD FDI FLOW PROPORTION, DEVELOPED EUROPEAN COUNTRIES 2005



Source: United Nations Commission on Trade and Development

More extraordinary circumstances are revealed when Iceland's proportional outward foreign direct investment flow in 2005 is compared with that of other developed European nations. Iceland leads the group with an investment rate, relative to GDP, two times larger than the second country on the list, the Netherlands. To gain a further understanding of the reasons for the massive relative size of the outward FDI flow of Iceland, it is helpful to recall the fact that there are few large companies, relative to the economy, that represent the majority of these investments.

In order to confirm this assertion, one of the questions posed in a survey of Icelandic businesses was: Has your company been moving its operations to foreign markets or is it planning to do so? Of the 497 participating firms in the questionnaire 57 answered that they had indeed internationalized their operations. The managers were also asked if they had bought a ruling shareholder position in a company abroad during the year 2005. According to the results, only 19 companies had bought a ruling shareholder position during the period. When asked if the companies planned to invest to achieve a ruling shareholder position in the near future, 37 firms, or 8.2% of the sample, indicated that they would. These results validate the statement that the majority of foreign investments can be traced back to relatively few major players. As a result, single investments and acquisitions made by these companies can significantly affect economic indicators, like the outward foreign direct investment flow of the Icelandic economy.

In addition, the conditions and circumstances that gave rise to this scenario had been building up for a while. The companies had outgrown the economy; substantial amounts of liquidity had built up due to the pension funds and the larger economic environment, financial liberalization and the privatization of the banks unleashed formerly unknown forces into the economy, and the global environment has rarely been more favorable. All of these factors combined, leading to this extraordinary wave of foreign investments. In international comparison, the stock of Iceland's external FDI is still relatively modest. Unless this foreign expansion continues to be as aggressive in the upcoming years as it has been in past ones, the outward flow of investments, and as a result the stock of relevant companies, should reach equilibrium at some point. Similar to other economic developments in Iceland's history, the process of internationalization will then have materialized much faster in this country than in more conventional economies.

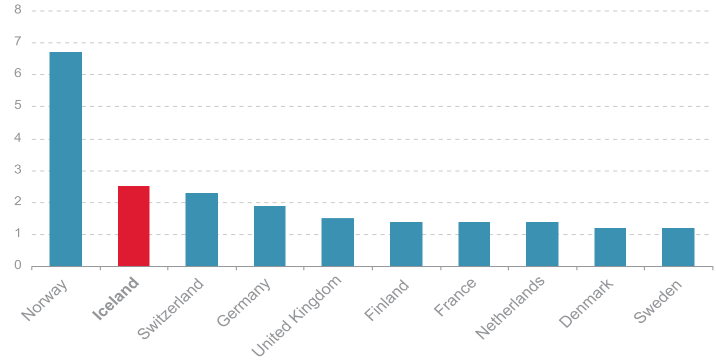
3.6 Outward Vs. Inward FDI

Economic conditions, along with structural factors, have caused imbalances in Icelandic FDI flows. For several reasons, Iceland´s outward FDI has significantly exceeded the inward flow. As Figure 17 outlines, Iceland has the second-highest outward-inward FDI stock ratio among the developed European countries. The total stock of foreign investments that Iceland owns is 2.5 times higher than the stock owned in Iceland by foreigners. The only country that has a higher ratio is Norway, where outward FDI is almost seven times higher than inward. It is interesting to note that the three countries that rate highest all have relatively large common saving funds: Iceland and Switzerland in their pension funds (which are the largest ones in Europe relative to GDP) and Norway with the Oil Fund. Having such large funds, seeking maximum interest on savings, is very likely to actuate foreign investments, both directly in the form of investments in foreign stocks and indirectly as a source of financing for domestic firms seeking to expand abroad.

The recent economic conditions, which have in many ways favoured outward FDI over inward,

FIGURE 16
HIGHEST FDI RATIOS (OUTWARD STOCK/INWARD STOCK), DEVELOPED EUROPEAN COUNTRIES, 2005

Source: United Nations Commission on Trade and Development



can mostly be attributed to major constructions in the field of hydroelectricity. Due to those relatively large projects (the total amount invested in the largest project amounts to roughly 10% of GDP) economic tension has been high, causing interest rates to rise considerably (and causing several other imbalances which are not discussed further in this context) and crowding out other investments.

This economic imbalance has increased the volatility of the ISK, which experienced a substantial appreciation of the interest rate over the period of 2001-2005. During the same time, inflation in Iceland was in line with, or higher than, other OECD countries, so the real exchange rate has been very high during this period. These features have without a doubt discouraged inward FDI in Iceland, as they have made Icelandic assets relatively expensive. For the same reason they have encouraged Icelandic businesses to invest abroad, where assets have been relatively less expensive. Furthermore, the option of funding foreign investments in Iceland in ISK (in order to neutralize the exchange rate risk), has been made less attractive because of high interest rates. These features can mostly be expected to fade (and have already done so up to a certain degree with the depreciation of the ISK) when this period of widespread construction ends and the economy reaches equilibrium. The recent merger of the Icelandic Stock Exchange with the OMX Nordic exchange will also decrease the negative effects of the instability of the ISK, assuming that some companies choose to list their stock in foreign currency, most likely euros.

Despite the fact that many of the economic conditions that have encouraged outward invest flows can be attributed to the construction of hydroelectric plants, there is another side to this coin. It must be noted that most of the foreign investments made in Iceland have been in aluminum plants, which would not exist if not for the waste supply of hydroelectricity. Therefore, these constructions may in the long term lead to an increased stock of inward foreign investments, despite their negative effects on current inward flows.

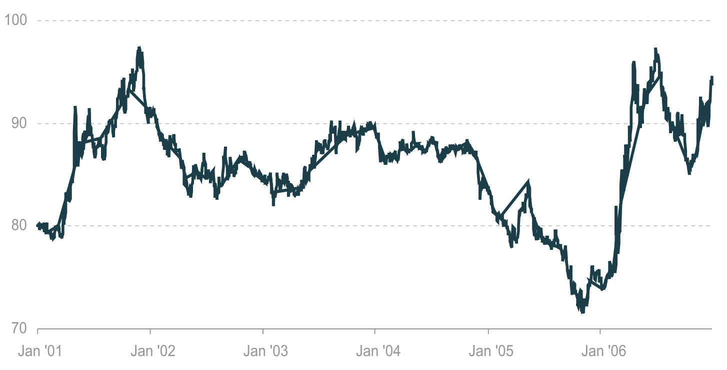


FIGURE 17
EUR/ISK

Source: Central Bank of Iceland

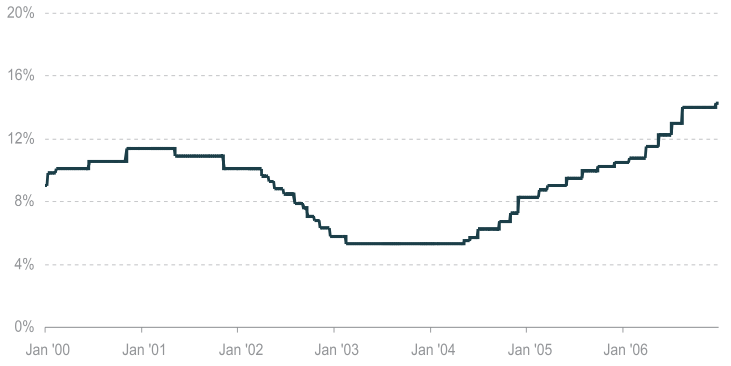


FIGURE 18
POLICY RATES OF THE CENTRAL BANK OF ICELAND

Source: Central Bank of Iceland

There are, moreover, certain features that discourage direct investments in Iceland that are more structural rather than cyclical. According to statistics from the OECD (Economic Outlook, 2003/1), Iceland ranked number one in barriers to foreign investments in the year 2000. In their calculations, the OECD primarily considered three things when comparing the extent of those barriers: limitations on foreign ownership in corporations, various governmental restraints, and restrains on foreign labor and the level of freedom for foreign companies to participate in the domestic market. The main weakness of the investment environment in Iceland has to do with governmental restraints on the level of freedom of foreign firms to participate in the domestic market. Mainly, rules and regulations prevent foreigners from participating in the Icelandic fishing industry and the energy sector.

An important characteristic limiting inward investments is the small size of the Icelandic market. A small population presents an obstacle to firms seeking investments in consumer-driven industries. As previously mentioned, growth opportunities are also restrained by a small labor market, making investments in labor-intensive operations less feasable than on other markets that have abundant labor supply.

Another persistent obstacle to inward FDI are the general prices and wages which are relatively high in Iceland. This was exaggerated even further with the strong ISK during the previously mentioned period. Because of these persistantly high prices, Iceland is mainly internationally competitive in high value-added industries. There are two exceptions in regards to this issue: electricity and land area. Compared to other Western nations, Iceland is abundant in both. This is the main reason why the country has been a popular choice for aluminum companies to open up production factories.

A final point worth noting is the Icelandic tax system. As previously has been mentioned, the number of Icelandic investors and companies moving their stock portfolios to holding companies in certain countries in order to lower their tax burden has increased in past years. The motivation behind these asset transfers is that capital gains on assets are taxed in Iceland. In addition, there are certain rules concerning withholding taxes, which can increase the tax burden on foreign direct investments in Iceland even further. These tax features have been heavily criticized and it is not unlikely that some changes will occur to make the system more favorable in the near future, especially since the contradict the genarally favorable tax environment that Iceland offers businesses.

3.7 Sources of Financing

Despite the fact that a large stock of domestic funding has been available during recent years, it is fairly obvious (considering that outward foreign direct investment flow was 43.8% of GDP in 2005) that it is not the sole source of financing. It may seem an overreach for an economy to invest such a high proportion of its GDP abroad, but as long as the financial resources are available, there is no obvious reason why it should be.

Most foreign investments and acquisitions have been financed through a combination of loans and equity. The coverage provided in this report of the foreign acquisitions and investments of Icelandic companies reveals that the credit financing of most of the largest projects has taken place in cooperation with respected international banking institutions.

In March 2005, Bakkavör Group made its largest acquisition ever, and one of the largest in the history of Icelandic business, with its acquisition of the British fresh prepared food company Geest PLC. The total price paid for shares in Geest was GBP 497.3 million. The transaction was financed by Barclays and Kaupthing Bank, which undertook to provide a loan of GBP 575 million for the acquisition. Of the total amount, GBP 500 million was provided by Barclays.

In May 2005, Actavis acquired Amide Pharmaceutical Inc, an American generic pharmaceutical company, for an initial gross consideration of USD 500 million in cash with an additional USD 100 million payable over two years subject to performance. The acquisition was financed with newly issued shares to raise a total of EUR 250 million and a new 5-year syndicated credit facility of EUR 500 million, arranged and underwritten by ABN AMRO and Bank of America. Part of the financing was used to refinance and restructure existing short- and long-term debt.

Only a few months later, the company acquired international pharmaceutical company Alpharma Inc. for a total consideration of USD 810 million in cash. The financing comprised a EUR 808 million 5-year Term Loan Facility and a EUR 250 million 5-year Revolving Credit facility, both underwritten solely by UBS. Part of the financing was used to refinance and restructure existing short- and long-term debt.

These are some of the largest acquisitions that have taken place in recent years, and they clearly demonstrate that Icelandic companies have gained the confidence of the international banking sector.

In December 2006, FL Group signed a three-year Equity Finance Facility with Barclays Capital for up to EUR 400 million. Over the year 2006, FL Group has arranged over EUR 1 billion in funding and available facilities from international banks. The facility signed with Barclays is an Equity Basket Financing arrangement allowing FL Group to finance stakes in listed companies in Europe as well as Iceland.

As these examples show, the sources of financing for Icelandic companies are very diverse and extensive. Because of the extensive growth that has taken place in the financial industry, a further discussion on the sources of financing of the banking industry follows.

Until recently, Icelandic banks operated almost solely in the small domestic market. As global liquidity has increased, and Icelandic investors and businesses have started to make use of historically-low interest rates to acquire businesses outside of Iceland, the banks have followed suit. They have served as an important source of credit in the advance of Icelandic businesses.

It is fairly obvious that the internalization of Icelandic financial institutions has changed the way they are financed. A banking system that is only serving the local market can finance itself domestically, a situation illustrated by that fact that in early 2000 less than 1/3 of the banks' financing came from abroad. Increased foreign operations have demanded more diverse financial sources and in the end of 2006 almost 2/3 of the financing came from the international financial market. During that time the banking system has gone through extraordinary expansion, where total assets, on a parent company basis, have grown from approximately 120% of GDP in 2001 to more than 500% at the end of 2006, a figure reaching approximately 750% with the inclusion of the assets of subsidiaries.

TABLE 5: FINANCING OF THE BANKING SYSTEM*

	Dec 2006		Dec 2005		Dec 2004		Dec 2003		Dec 2002		Dec 2001	
Domestic Liabilities	1,225,636	20%	924,242	24%	692,738	31%	568,922	39%	480,018	48%	408,478	46%
Deposits	773,658	12%	647,002	17%	524,690	24%	456,104	31%	387,562	39%	335,497	37%
Bond Issues	252,498	4%	146,243	4%	95,689	4%	76,372	5%	72,800	7%	49,711	6%
Other Borrowing	199,480	3%	130,997	3%	72,359	3%	36,446	3%	19,656	2%	23,270	3%
Foreign Liabilities	3,885,875	62%	2,239,931	58%	1,140,435	52%	716,458	49%	428,266	43%	403,144	45%
Deposits	364,595	6%	52,069	1%	14,500	1%	18,840	1%	0	0%	0	0%
Bond Issues	2,814,959	45%	1,842,123	48%	896,934	41%	478,829	33%	196,611	20%	195,423	22%
Direct Lending	706,321	11%	345,808	9%	229,000	10%	218,788	15%	231,655	23%	207,722	23%
Capital & Subord.	967,342	16%	586,673	15%	339,081	15%	157,015	11%	116,685	12%	96,159	11%
Other Items	152,705	2%	102,671	3%	36,016	2%	19,849	1%	-17,557	-2%	-10,560	-1%
TOTAL	**6,231,558**		**3,853,517**		**2,208,270**		**1,462,244**		**1,007,412**		**897,221**	

Source: **Central Bank of Iceland**

*ON PARENT COMPANY BASIS

Almost 40% of financing came from domestic deposits in 2000 but only about 12% in 2006. At the same time, deposits grew from approximately 40% of GDP in 2000 to 68% by the end of 2006. As Table 5 shows, the dramatic growth in foreign deposits that has occurred in the past year is also especially notable, as it represents a sixfold increase, proportionally, over 12 months (Note: these figures are all calculated on a parent company basis, not including the subsidiaries of the companies that constitute the overall banking system). These developments illustrate how the Icelandic banking system has changed from one of local depositary institutions to international financial intermediates in only five years.

3.8 How Stable Is the Icelandic Economy?

During the spring of 2006, the Icelandic financial markets experienced heavy turmoil as a consequence of several factors. The enormous growth of the Icelandic banking system, along with economic imbalances, raised concerns over how stable the economy, and especially the financial sector, really was.

With several pessimistic reports by bank analysts and Fitch Ratings' downgrade on the outlook for Iceland's sovereign credit rating, the Icelandic krona (ISK) fell by more than 15% in one month, while the Iceland stock market (ICEX-15 equity price index) fell by a similar amount. With this increased volatility and concerns about the current account deficit of over 16% of GDP in 2005, some analysts raised the possibility that Iceland might undergo a financial meltdown, similar to ones that have occurred in recent years in emerging market countries.

In order to answer these questions, the Iceland Chamber of Commerce hired two experts, Dr. Frederic Mishkin and Dr. Tryggvi Thor Herbertsson, to analyze the possibility of a financial meltdown in Iceland. Their report, *Financial Stability in Iceland*, provides a framework for evaluating financial fragility by examining the fundamentals of Iceland's economy to see whether they suggest that the country could go down the traditional route to financial instability.

The summary below is based on this report:

Recent volatility in Iceland's asset markets has raised concerns about the fragility of Iceland's economy. In this respect many have looked to the country's large current account deficit.

Iceland is unique in that it is the smallest economy in the world to have its own currency and a flexible exchange rate. It has experienced high current account deficits before, but rapid adjustment has taken place in the past without significantly stressing the Icelandic financial system. Iceland is also an advanced country with excellent institutions (low corruption, rule of law, high education, and freedom of the press). Its financial regulation and supervision is considered to be of high quality. In addition, Iceland also has a strong fiscal position that is far superior to what is seen in the United States, Japan and Europe. Iceland's financial sector has undergone a substantial liberalization, which was complete over a decade ago, and its banking sector has been transformed from one focused mainly on domestic markets to one providing financial intermediation services to the rest of the world, particularly Scandinavia and the UK.

There are three traditional routes to financial instability that have manifested themselves in recent financial crises: 1) financial liberalization with weak prudential regulation and supervision, 2) severe fiscal imbalances, and 3) imprudent monetary policy. None of these routes describe the current situation in Iceland. The economy has already adjusted to financial liberalization, which was already completed a long time ago, while prudential regulation and supervision is generally quite strong. Fiscal imbalances are not a problem in Iceland: quite the opposite, with Iceland having an excellent fiscal position with low government net debt (less that 10% of GDP) and a fully funded pension system (with assets amounting to more than 120% of GDP). Monetary policy has also been successful in keeping inflation low and near the inflation target, particularly when housing prices are excluded from the inflation measure, as is the case in the United States and the Euro zone. It is true, however, that Iceland is running very large current account deficits, but current account deficits by themselves do not lead to financial instability. Our analysis indicates that the sources of financial instability that triggered financial crises in emerging market countries in recent years are just not present in Iceland, so that comparisons of Iceland with emerging market countries are misguided.

The fact that Iceland is not going down traditional routes to financial instability does not mean that there are no other potential problems looming. There are concerns that the banks could experience refinancing problems. Although the banks' reliance on external financing poses the biggest risk to the financial system right now, the probability of a credit event occurring is low. The rapid credit *growth in the banking system and the banks' transformation from concentrating on domestic lending, to becoming international financial intermediaries, also presents some risk because the banks may not have been able to develop organizational capital fast enough to run their new business safely. These concerns have led to criticism of Iceland's banks for lack of transparency.*

However, the Financial Supervisory Authority's awareness of these risks and the fact that Iceland has high quality governmental institutions make it unlikely that there are serious problems with safety and soundness in the banking system.

Iceland's small size and openness make it more vulnerable because small changes in financial flows as a percentage of overall flows in international flows in financial markets can have a huge impact on Iceland's asset prices and particularly the exchange rate. Self-fulfilling prophecies, otherwise known as multiple equilibria, in which concerns about an Icelandic financial meltdown could lead to massive withdrawals out of Icelandic assets, which would then lead to a financial meltdown, even if fundamentals do not warrant it, cannot be ruled out. However, research on multiple equilibria suggests that self-fulfilling prophecies are unlikely to occur when fundamentals are strong, as they are in Iceland.

The analysis in our study suggests that although Iceland's economy does have some imbalances that will eventually be reversed, financial fragility is currently not a problem, and the likelihood of a financial meltdown is low.

Since the report was published, the economy has regained its strength and is back on track. Stock markets have recovered to their highest levels, the ISK has appreciated substantially (but has still been relatively volatile over the period), the credit spreads (CDS) of the banking sector have been gradually narrowing, and the current account deficit has started to show signs of improvement. Such positive developments give reasons for optimism regarding the future of the Icelandic economy.

FINAL WORDS

To summarize, Iceland's path to a modern, globalized economy can be explained by several factors. These include primarily the general liberalization and structural changes of the economy, privatization, the European Economic Area agreement, strong pension funds, and a well-educated group of young people often educated abroad. The international development of Icelandic firms has been strengthened even further by the favorable global economic environment.

The Icelandic economy is very special in many ways. One of the main reasons why this rapid progress has been possible is the small size of the nation. Being a population of only 300.000 allows the economy much higher flexibility and adaptability than is possible in a larger economy. The scarcity of workers has also been a driving force of this foreign advance, considering the lack of opportunities that such a small market offers.

These special circumstances cause some abnormalities particular to the Icleandic economy. The total market capitalization of the six largest companies is almost twice the country's GDP and single investments can sometimes amount to a substantial proportion of GDP. Asset markets have been growing noticeably, unemployment has been nonexistent and economic growth has been very high. It is therefore understandable that recent developments may seem unconventional to people who are unaware of the unique character of the Icelandic economy.

It is the hope of the Iceland Chamber of Commerce that this report will be helpful in creating a better understanding the recent advance of Icelandic business abroad. Having compiled this overview, it seems that there may be some lessons to be learned from the Icelandic situation. This is a story of how a nation has unleashed the entrepreneurial power of its people by liberalizing the economy and enhancing market access. It is also a story about how a small nation may punch well above its weight in the global economy if the context is right, the people are well educated, the culture is supportive and, last but not least, if the leaders cause no hindrances. The fact that Iceland is a small country with very few people means that every individual matters and there is some evidence that perhaps Icelanders do not see barriers where other societies may. A country where people are on a first name basis, people of all education and income levels live next to each other, and women and men both young and old have always had to work hard to adjust to unexpected circumstances may very well be a successful recipe for prosperity.

In some ways the Icelandic situation appears a bit crazy, but there is considerable evidence that it is effective and sustainable. To provide an outsider's view of the Icelandic character, a leading authority on national identity was asked to share his views. Mr. Simon Anholt has spent some time working with Icelandic leaders and concludes this report with an overview of what he considers to be the genius of Iceland. Although his piece by no means paints a comprehensive picture of the Icelandic character, we think it may be informative, even entertaining, in its insights into the many reasons contributing to Iceland's vigorous advance on the international economy.

THE GENIUS OF ICELAND

by Simon Anholt

Despite the good job of communicating the natural attributes that the rise in Icelandic tourism has done, the character of Iceland's population remains largely unknown except to its nearest neighbours.

As a result, most people in most countries ascribe a range of generic Scandinavian attributes to the Icelanders themselves, while acknowledging that they live in a rather special place. That's not a bad thing, since these attributes are all positive, but they don't make Iceland stand out in any way.

Iceland deserves to be perceived as more than merely an icy, topographically exotic island with no outstanding human, cultural or commercial attributes, inhabited by Scandinavians. Positive perceptions of a country's people are an important asset for enhancing trade, international relations, cultural relations, media coverage, and ultimately for tourism too.

Introducing the world to the Icelanders is clearly a necessary stage in Iceland's progress. So what is the genius of the Icelanders?

It is, I am certain, the genius of a people with both ice and fire in their souls. Icelanders combine a very Nordic love of order, efficiency, fairness and competence, with a flair, warmth, informality and passion that are distinctly Mediterranean.

It's lutefiske with a generous pinch of peperoncino piccante. This Latino-Nordic quality of the Icelander is the secret of most of Iceland's recent successes and, I am convinced, the key to its future prominence.

A glance at any of Iceland's achievements in the global marketplace often reveals a foundation of quality, precision and efficiency that is unmistakably Nordic, combined with a dose of courage, ingenuity and even flamboyance that is very seldom found in Swedish, Danish or Norwegian enterprises, and more frequently in Italy, France or Spain.

Where the Icelanders differ most noticeably from the Scandinavians is in their refusal to accept the structures and systems of others, and a profound mistrust of normality. The Scandinavians often celebrate conformism, order and consensus, while the Icelanders show a fiery wilfulness, an almost iconoclastic refusal to accept the norm. We've only learned the do's, they often say, not the don'ts.

The Icelanders behave, in fact, just as we are told that good entrepreneurs must always behave: they question everything, accept nothing at face value, and frequently pursue ideas that fly in the face of conventional wisdom. Their Norse persistence, courage, determination and competence are what then ensure that the venture – no matter how wildly ambitious it might seem at first glance – ultimately achieves triumphant success. This could be the motto of the Icelander: it sounds crazy, but it might just work.

Unlike the Scandinavians, the Icelanders are seldom held back by the need for full consensus on every decision; they have an almost Italian habit of 'doing deals in the corridor', getting things done by knowing the right people, using the right networks, and depending on their highly-developed family and community cohesion to crack any problem with the minimum of fuss and delay. It is this utterly reliable bedrock of social and business support which gives Icelanders the confidence and security to travel far and wide, to attempt the impossible, to question the norm, to behave like giants despite the tiny size of their country, with remarkably little fear or even much humility.

Grit is an important ingredient in this complex cultural recipe. The Icelanders show a true Viking resourcefulness, self-reliance, stamina, persistence and perseverance: qualities which can surely only come from centuries of struggling against the elements in small isolated communities, living on an unpredictably seismic land that barely supports agriculture, and braving the wild ocean in tiny open boats.

Yet at the same time, the fierce independence is contrasted with a kind of collectivism that at first looks very Southern: an interdependence which is in fact more benign than the self-interested 'credit bank' of many Latin societies (I'll do you a favour so you can owe me one). The Icelanders have famously strong family values, a love of children and a tendency towards matriarchy – all highly endearing qualities which wouldn't seem out of place in Sicily or Calabria – and an emphasis on roots which is more redolent of Greece or Turkey than of Sweden or Denmark. This is a society where your surname is the name of your father, not the birthplace or occupation of your forefathers; and the question some still ask today when introduced to a stranger is not "what is your name?" but "who are your people?"

The self-assuredness, even self-importance, that comes from this stable society can seem almost absurd to those of us who are accustomed to measuring the status of a country by the size of its population or the square area of its territory: and one eventually wonders whether the Icelanders' fixed belief that their tiny island is truly of global significance is indeed some kind of self-fulfilling delusion.

Certainly, if ambition and daring and what the Jews call chutzpah is part of the recipe for success in today's world, the Icelanders have some unique cultural advantages.

Driven to international trade from the very start of their civilisation, gifted with all the qualities of the entrepreneur, natural team players and natural knowledge workers, the Icelanders are truly paragons of globalisation, and are poised to take full advantage of the rich potential that global trade, global communications, the rise of the intangible economy and the 'brand state', have thrown up in the twenty-first century.

The sign on the door of planet Earth during this age of global competition should be the one that reads "You don't have to be crazy to work here, but it helps".

In a workplace like that, I'll put my money on the Icelanders to get to the top.

VIÐSKIPTARÁÐ ÍSLANDS
ICELAND CHAMBER
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