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FROM BORGARF-JORDUR EYSTRÍ PHOTO: PÁLL STEFÁNSSON

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Trade Council

Iceland, guest of honor in a French fair

The Caen International Fair was one of the first French fairs to introduce other countries as Guests of Honor and, since 1977, has welcomed more than 25 countries. Iceland will be the Guest of Honor in 2006 when the Fair will be held from the 15th to the 25th of September.

As the 'Guest of Honor' Iceland will become the focus of exhibitions, performances, trade shows and other commercial opportunities. The Fair offers an unrivalled opportunity for promoting institutions, businesses, charities, products, goods and services to an audience of up to 250,000 visitors.

Every September, the impact of this great fair is felt all over Normandy. It is a major commercial event, and research indicates tangible benefits accruing to visitors and exhibitors alike. The Caen International Fair is a significant event in Western France and ranks fifth in size and importance of all such trade exhibitions throughout the whole of France. Attendance increases year by year and the Fair is promoted by extensive advertising in the media, on outdoor sites and by public relations.

Iceland Honorary Consuls

Successful Conference

The Sixth Icelandic Consular Conference was held in Reykjavik on May 8-10 and drew record attendance. Iceland's honorary consuls from every continent attended, a total of 165 out of 253. Six of those have attended every consular conference from the first one in 1971, when 85 honorary consuls attended. The conference this year was a great success. The consuls attended sessions, special events and receptions every day. Both the Prime Minister and the Minister for Foreign Affairs addressed the consuls, who were also invited to the President's residence at Bessastadir.

In connection with the conference, the Trade Council organized a trade show at the Hotel Nordica in Reykjavik. Some 40 companies from various sectors participated, including representatives from fishing and fish processing, tourist services, music, software, furniture making, engineering and publishing. Thus the Icelandic consuls were given a chance to get to know a wide range of Icelandic companies first-hand. The conference ended in a gala dinner at The Pearl, the restaurant perched on top of the hot water tanks in Reykjavik. Over 500 politicians, artists and business leaders attended the dinner, in addition to the foreign guests. The conference was a success in further building up relations with this important network of Iceland's representatives.



Award

3X gets President's Award for Export Achievement 2006

3X is a company manufacturing processing solutions for the food industry. It manufactures state-of-the-art processing equipment, made of high quality stainless steel. Their aim is to combine the most advanced design and technology with robust fabrication.

Valur Valsson, chairman of the evaluation committee, said during the presentation ceremony, "3X receives the award for the excellent results in sales and marketing of specially-designed equipment and solutions for the food industry that it has attained over a short time. 3X is a good representative of those companies in Iceland that base their operations on adapting Icelandic knowledge and expertise to the needs of global markets."

Founded in Ísafjörður in 1994, 3X initially focused on designing and manufacturing stainless steel equipment and providing services for the local fisheries industry, particularly shrimp processing. The company began exporting to Canada in 1998, and since then the number of employees has grown ten-fold, mostly in Ísafjörður but also in the company's sales offices in Canada, England and Reykjavík.

Government

Prime Minister Halldór Ásgrímsson Leaves Politics after 32 Years

In a surprising chain of events, Prime Minister Halldór Ásgrímsson announced that he would be stepping down from his cabinet post and would not seek re-election as chairman of the Progressive Party at the party convention in August (see p. 6-7). Even though Halldór Ásgrímsson is only 58 years old he is the most experienced of all Iceland's parliamentarians. He was first elected to Althingi in 1974 at the age of 26 and has held his seat since then with the exception of 18 months in 1978-79. Halldór was elected vice-chairman of the Progressive Party in 1980 and took over as chairman in 1994. In 1983 he became Minister of Fisheries and during his eight years in office the fishing quota system was initiated. From 1991 to 1995 the Progressive Party led the opposition against the coalition between the Independence Party and the Social Democrats. This is the only period since 1974 that the Progressive Party has not been in power, except for a brief interval in 1979-80. When the majority of Althingi voted to join the European Economic Area in 1992, Halldór Ásgrímsson broke ranks with party chairman Steingrímur Hermannsson, who was against joining. Halldór, together with six other members of the Progressive Party, abstained in the vote. Two years later he was elected party chairman and in 1995 the party gained both votes and seats. Following the election the Progressive Party formed a majority government with the Independence Party and Halldór Ásgrímsson took over as Minister for Foreign Affairs. In 2004 he became Prime Minister. When Halldór stepped down, political supporters as well as opponents said that he would be remembered as a determined politician who kept his word.



PHOTO: GEBB OLAFSSON

Elections Lead to Cabinet Reshuffle

The municipal elections led to a new mayor in Reykjavík and, surprisingly, to a new Prime Minister

Municipal elections were held in Iceland on May 27. The focus was on the election results in Reykjavík, where the left-wing Reykjavík slate had held a majority for 12 years. Opinion polls had predicted that the conservative Independence Party might win the majority. That did not happen, but the elections had unexpected and very unusual consequences. Less than a month later Iceland had a new prime minister and a cabinet shakeup produced new faces in five ministries.

PROGRESSIVE PARTY LOSES VOTES BUT GAINS POWER IN REYKJAVÍK

The results of the elections were mixed, as always. The Independence Party, which has been in power in Iceland for 15 years at the national level, received 42 percent of the overall votes in the local elections compared to 41 percent in the previous elections. The party won an outright majority in 15 municipalities. The Social Democratic Alliance got about 27 percent in Reykjavík and less than 30 percent overall. Party chairman Ingibjörg Sólrún Gísladóttir called the results “disappointing”. The Left-Greens received 13 percent of the votes, a gain of 6 percent since the previous local elections. The Progressive Party was the big loser. The party polled at 12 percent, down from 23 percent from the previous elections in 2002. The Liberals gained 3 percent, receiving 9 percent of the votes.

In Reykjavík, the Independence Party secured 7 out of 15 seats on the city council. This was short of the majority the party had hoped for, but within a couple of days the party’s mayoral candidate, Vilhjálmur Th. Vilhjálmsson, had formed a majority with the help of Progressive Party member Björn Ingi Hrafnsson.

Morgunblaðið, a large daily newspaper, wrote after the election that the results “confirm the crisis that the [Progressive] Party has faced

over the past quarters”. The Progressive Party had “become a symbol for the so-called heavy industry policy that has admittedly secured low unemployment and high economic growth but is quite controversial because of the effects of hydroelectric dams and industrial plants on the environment”.

In response to the results of the elections, Minister of Agriculture Gudni Ágústsson, vice-chairman of the Progressive Party, claimed that the parliamentary opposition had “persecuted” his party and that media coverage of his party had been “unfair”.

UNEXPECTED LATE RETURNS

Soon after the elections the Icelandic media ran stories speculating that Prime Minister Halldór Ásgrímsson intended to step down, both as prime minister and as chairman of the Progressive Party. He had said on election night that he took the results personally, yet no one really expected him to resign.

Halldór Ásgrímsson’s first intention was that former Minister and Director of the Central Bank Finnur Ingólfsson would take over as party chairman. At the same time some Progressive Party members publicly called for the party’s vice-chairman, Gudni Ágústsson, to run. The Progressive Party was thrown into turmoil and some of its members in Althingi, Iceland’s parliament, announced that they would not support Gudni in his bid for chairman.

Following a very public feud within the party, Halldór Ásgrímsson announced that he would step down as prime minister immediately, yet carry on as party chairman and member of Althingi until next fall. His resignation meant that Foreign Minister Geir H. Haarde, chairman of the Independence party, would take over as prime minister.

Halldór Ásgrímsson was first elected to Althingi in 1974 and has



The new leaders: Vilhjálmur Þ. Vilhjálmsson, mayor of Reykjavík, and Prime Minister Geir H. Haarde.

been a member longer than all other current members. Since 1983 he has had an unbroken stint as a cabinet minister, with the exception of 1991-1995. In other words, he has served as a minister on Iceland's cabinet for nearly 19 years. Only one man, Bjarni Benediktsson, has served longer as minister in Iceland, holding various cabinet posts for more than 20 years during 1947 to 1970.

GEIR H. HAARDE BECOMES PRIME MINISTER OF ICELAND

A new cabinet was formed on June 15 under the leadership of Geir H. Haarde, chairman of the Independence Party. The new prime minister, Geir H. Haarde, was elected chairman of the Independence Party in the fall of 2005. He has been a member of Althingi since 1987. In 1998 he became Minister of Finance and served in that capacity until he took over from David Oddsson as chairman of the Independence Party and Minister for Foreign Affairs. Geir H. Haarde was born in 1951.

Following the shake-up, the Independence Party lost one ministry, the Ministry for the Environment. Sigríður Anna Thórdardóttir had been Minister for the Environment since September 2004. Jónína Bjartmarz from the Progressive Party replaced Sigríður Anna as Minister for the Environment. Jónína has been one of the members of the Progressive Party, at odds with Halldór Ásgrímsson, particularly after being passed over for cabinet posts. She is a lawyer and came into Althingi in 2000 after Finnur Ingólfsson, vice-chairman of the Progressive party, resigned from politics. She was born in 1952.

Two other new ministers came in from the Progressive Party. Jón Sigurdsson, Director of the Central Bank of Iceland, came in as Minister of Trade and Industry. He had not been active in party politics previously and is not a member of Althingi. This is considered unusual, since almost all ministers are elected members of Althingi. The last time this happened was in 1988 when current President Ólafur Ragnar

Grimsson, then chairman of the socialist People's Alliance, became Minister of Finance. Jón was considered radical as a young man, but has moved towards the center. He was previously rector of the Bifröst School of Business and later manager of the Cooperative Employer's Society. The society merged with the Employer's Society of Iceland around 2000. Jón was born in 1946.

Jón Sigurdsson replaced Valgerdur Sverrisdóttir who moved on to the Foreign Ministry. Valgerdur had been minister of Trade and Industry since the year 2000 and has served as a member of Althingi for the Progressive Party since 1987. She was loyal to Prime Minister Ásgrímsson and recently voiced opposition to Gudni Ágústsson, saying that she would not trust him as chairman. Valgerdur Sverrisdóttir was born in 1950.

Magnús Stefánsson has taken over as Minister of Social Services. He was first elected to Althingi for the Progressive Party in 1995. He lost his seat in the 1999 elections but came in again two years later. He was previously chairman of the Appropriations Committee of Althingi, perhaps Althingi's most powerful committee. He played in a pop band as a young man and had a popular hit song, Trusted friend. Magnús is considered loyal to Halldór Ásgrímsson, yet he has not been vocal in the dispute within the party. Magnús Stefánsson was born in 1960.

Jón Kristjánsson, who had recently become Minister of Social Services after five years in the Ministry of Health, resigned his cabinet post in the shuffle. Halldór Ásgrímsson said the two had been together in politics for a long time and that Jón Kristjánsson had wished to leave the cabinet at this time. He was born in 1942.

After the shakeup, the Progressive Party has three female ministers and three male ministers, whereas the Independence Party has five male ministers and one female minister. □



Iceland is a High Tech Country

Dr. Sigríður Valgeirsdóttir leads American genetic company NimbleGen in Iceland

There is a lot to envy about Sigríður Valgeirsdóttir. She has a PhD in Medicine from Uppsala University in Sweden. She's young and friendly and extremely efficient. And she's a member of the senior management team of NimbleGen, an American genetics company with a rapidly expanding office in Reykjavik under Sigríður's leadership.

"I mostly enjoy the constant development of the technology," Sigríður says of her four-year term as director of NimbleGen's Iceland office. "At the university here, there are a lot of ideas and good people but too little money and equipment to let the ideas develop. When I started working at NimbleGen I realized that there was not such a big distance between ideas and results. And we are always coming up with new ideas."

Those new ideas are primarily in the field of genetic research. NimbleGen began its days in 1999 as a small start-up company in Wisconsin, USA. Since then it has grown to a team of about 90, with 30 biologists, biochemists and other scientists based at the Reykjavik facility. Its field is highly specialized, synthesizing microarrays for use in genetic studies at universities and institutes around the world. "Microarrays are used as tools to get a picture of the cells and what is happening inside them," explains Sigríður. "They help you to see if DNA in the cell's nucleus has mutated or changed and how the information from DNA is used to make proteins." NimbleGen's technology has been applied to DNA samples from humans, animals, plants and bacteria. It also sells its technology to scientists and researchers at various institutes. "They come up with the ideas of how they want to use our technologies to answer their questions," explains Sigríður.

NimbleGen's technology is patented and its applications are constantly being developed in order to remain a market leader in this highly competitive and rapidly changing industry. The Reykjavik office holds the company's main service laboratory and produces over 90% of the microarrays NimbleGen eventually sells around the world.

The facilities are impressive. Situated in an immaculate 1-year-old office building in the

rapidly growing neighborhood of Grafarholt in eastern Reykjavik, a series of high windows afford stunning, and hopefully inspirational, views of Mount Esja and Faxaflói Bay. Sigríður's spacious office is lined with binders no doubt containing crucial data that will perhaps one day help to change the face of genetic medicine. Outside the office, scientists in lab coats glide along the corridors. In Icelandic fashion, everyone is dressed casually, yet seemingly effortlessly stylishly. I covet Sigríður's striking red necklace.

"Why Iceland?" is the question that leaps to mind when considering NimbleGen's expansion strategy. Although multi-faceted, it seems the answer was ultimately pragmatic. "They wanted to set up an operation in a country where competing technology was not patented," reveals Sigríður. "Some of the patents in this field are quite broad so rather than spend several years and lots of money on finding out if the patents could stand, NimbleGen decided it would be better to set up here. And of course Iceland was already on the map for its bio-technology."

Sigríður got involved because she was working at the Iceland Genomics Corporation at the time and it helped with NimbleGen's start-up in Iceland. NimbleGen rented space from the IGC and also used some of its services in the beginning, and Sigríður credits this as allowing the company to establish and grow quite quickly at that time.

Establishing a company in a small foreign nation has brought both pleasant surprises and challenges. "At first NimbleGen's founders didn't know anything about Iceland, and they first arrived here in November in the middle of winter, so it didn't look very exciting for them," she says with a laugh. I look outside at the gale force winds and driving rain of a mid-June "summer" day and am not convinced the time of year would make any difference...

"The biggest surprise for them was there are a lot of well educated people here," she continues. "This is a high tech country. Technology is well used and developed. Also people speak fluent English and other languages. And often because this is such a small country, the distances between institutes and even the

government is very short. That makes it easier to get access to authorities. So NimbleGen is very happy with the work that is done here. There is constant collaboration between the two countries."

Iceland's recent financial jitters have not gone unnoticed, however. "Of course I'm concerned with what happens in terms of inflation and the economical instability," confesses Sigríður. "But the high value of the króna had not been good for us. Labor costs are rather high here compared to other countries, but that is getting better with the lower króna."

Other challenges arise because of international perception of the country. "We often have to convince people that it is OK to send samples to Iceland," says Sigríður, "but this is getting easier and easier and we have very efficient transport companies operating here."

Attracting new business is also simpler. NimbleGen tripled its production in 2005 and the company is on track to have another successful year. Many of the new sales come from Europe and Asia, making Iceland a closer partner for the work than the head office in Madison, Wisconsin.

NimbleGen Iceland is also co-operating with new start-ups. There are two Icelandic companies, owned by American scientists, which conduct their own projects using NimbleGen's technology. LindGen and WiCell are both based in the same building as NimbleGen in order to maximize their contacts and work together, although I suspect that the great view also has something to do with it. Sigríður says they are working on having European companies start up activities in Iceland soon as well.

The mood is certainly positive here, despite any bumps in the economy. When I ask if there are any specific news announcements she would like to make, Sigríður gets a twinkle in her eye and says only "no, not really at this moment." I think if I turned the tape recorder off I might get a different response.

There may not be any official press releases issued in the immediate future, but NimbleGen is a company to watch out for, and Sigríður should be proud of her and her team's achievements. Just remember you read it here first. □

Eliza Reid



Sigríður Valgeirsdóttir

The East: A Vibrant Area with Beautiful Landscapes



PHOTO: GEIR OLAFSSON

When you visit East Iceland, you find isolated fjords where no one resides, save for some sheep and reindeer. You also find the fast-moving building sites at Reydarfjörður and Kárahnjúkar. The contrasts are enormous, but for nature lovers the East offers some of the finest pearls in the Icelandic landscape.

The coastline shows great diversity, transforming from the broad bays of Bakkafló, Vopnafjörður and Héradsflói in the north, into the rugged and sheer eastern shore with its many jagged fjords isolated from each other by towering mountain ranges. Most of the fjords have fine sheltered natural harbours, while the coast farther south is more exposed and prone to blocking by sand, creating lagoons. In some places you can cross the fjords by ferry, or visit some of the islands off the coast. One of the islands, Papey, derives its name from the Pápar – Irish monks that are reported to have lived in

Iceland before the first Nordic settlers came to the country.

Many of the most beautiful mountains in Iceland can be found here. The queen of them all is Snæfell, close to Kárahnjúkar. If you climb to the top on a sunny day you will see Herdubreid, a most unusual mountain, to the north; Vatnajökull, Europe's largest glacier, to the south; and the fjords to the east. In the northeast you will see a tall mountain range, topped by Smjörfjall (Butter Mountain), which separates Vopnafjörður and the plain of Fljótsdalshérad. The plain extends far inland, with the mountains that lead to the interior on one side and the massif behind the fjords on the other.

Many powerful rivers drain seawards through the district, in particular towards the north. The Kárahnjúkar power plant project, currently under construction, has caused

some controversy, especially among environmentalists who claim that it will cause irrevocable changes to the landscape. The Kárahnjúkar circular route has been popular in recent years. To reach it, drive south on the national highway through Fljótsdalur, up to Fljótsdalsheiði at Bessastadir. You could start by stopping at Végarður, 4 km into the valley, where the National Power Company has set up an exhibition with information about the Kárahnjúkar dam. The road from Fljótsdalur through Fljótsdalsheiði and Vesturöræfi to Kárahnjúkar (around 65 km) is easily accessible to all vehicles. From Kárahnjúkar, most types of cars will be able to follow a small road west to Hafrahvammsgljúfur.

Jeeps can drive down to Laugarvalladalur to the abandoned farm at Laugarvellir, where there's a hot spring and one can take a natural warm shower. From Hafrahvammur you



PHOTO: PALL STEFÁNSSON

drive north along Skógarháls, down a road that extends to a crossroads at Vörduhraun. There you can choose between two roads. One is road no. 907 north to the old farm Sænautasel (1843-1943), which has been rebuilt and is open to tourists in the summer, and then to Highway 1 east of Mödrudalur.

Alternatively you can drive down to the farm Brú and down a road to Jökuldalur, onto Highway 1 just off Skjöldólfsstadir, or cross the Jökulsá river into Hrafnkelsdalur and back up to Fljótshálsheiði, and down to Fljótshálsdalur. The road from Hrafnkelsdalur up to the highlands is not accessible to small cars, as you will need to cross the river Hrafnkelsá.

Farther south, on the other hand, smaller rivers are found in the valleys where waterfalls are abundant. There are many lakes but none of them large, unless the wide Lagarfljót is classified as a lake rather than a river.

The plains include the largest forests in Iceland.

The heath land towards the interior is the natural habitat of Iceland's wild reindeer stock.

If you want to visit a village at the far end of Iceland, Neskaupstaður is a good candidate. It is located north of Nordfjörður fjord, the northernmost of three fjords that make up Nordfjardarflói Bay; the other two are Hellisfjörður and Vidfjörður, famous for otherworldly occurrences.

The town began expanding in the latter part of the 19th century, yet it wasn't until 1949 that Nordfjörður had a land route to neighboring towns. That route passed over Oddskard, one of Iceland's tallest mountains, which is very difficult to traverse during winter snows. A tunnel, 626 m long and 632 m above sea level, was built between 1974 and 1977. Local travel societies have marked out plenty of paths in the East Fjords. Perfect for peaceful walks in beautiful surroundings. □



PHOTO: GERI OLÁFSSON



Economic Ups and Downs

The Icelandic króna and the stockmarket have gone down but Icelandic economists are calm

Iceland is currently enjoying the biggest business boom in its history, and is now firmly established as Europe's most competitive economy. Ranked number four globally by the International Institute for Management Development's World Competitiveness Yearbook (WCY) in 2005, Iceland now outperforms some of the world's biggest industrial nations. Education, technological infrastructure, the social framework and positive attitudes and values are among the factors that have ensured Iceland's increasing competitiveness over the last few years – these are the foundations of an innovative, dynamic nation.

At the same time some foreign banks and rating agencies have been more negative about the Icelandic economy. Fitch Ratings representatives claimed in June that the Icelandic economy was heading for a “hard landing”, and that the Central Bank needed to raise interest rates further to keep inflation in check. They also predicted declining real estate prices and, possibly, the further depreciation of the Icelandic króna. Some of the other ratings agencies have also been somewhat more negative in their outlook than in the past. The most negative comments have been issued by Danske Bank in Denmark. After the first report was issued by Fitch in February the stock market took a downturn and the sharp gains of the first two months evaporated quickly. In the latter part of June the market was down 3% for the year, but more than 20% from its peak in February.

The Icelandic krona also lost some 20% of its strength against the major currencies. The Icelandic banks and financial authorities were quick to come to its defense. The Chamber of Commerce commissioned

economists Professor Frederic S. Mishkin of Columbia University and Tryggvi T. Herbertsson to write a report called Financial Stability in Iceland. “Recent volatility in Iceland's asset markets has raised concerns about the fragility of Iceland's economy,” the report stated. But these concerns, particularly those that raise comparisons with certain financial issues in emerging market countries, are “misguided” according to the report.

THE BANKS

Representatives of Icelandic banks have participated in numerous meetings, in Iceland and abroad. They also published a brochure, Icelandic Banking on Solid Ground. The Central Bank explained the economic situation as follows:

“The investment phase currently underway in the aluminum sector started in 2004 and is very large relative to the size of the Icelandic economy. Increased production capacity will begin to come on stream in 2007. Compounded by changes in the mortgage finance market, this strong investment activity led to a surge in domestic demand. Inflation pressures grew and the current account of the balance of payments deteriorated. The Central Bank began to tighten its monetary stance in the spring of 2004. By the end of March 2006, it had raised its policy interest rate to 11.5 percent. High interest rates pushed the exchange rate to a historically high level, which the Bank stated was unsustainable in the long run. It was bound to depreciate sooner or later – and indeed an exchange rate adjustment would be a necessary element in the current



BORGARTUN REYKJAVIK PHOTO: GEIR OLAFSSON

account deficit and reducing other imbalances in the economy.

The króna depreciated from that very high level in the early months of 2006. This development occurred a little earlier than the Central Bank had expected and will make it a greater challenge to bring inflation, 4.5 percent at the latest measure, towards the target in the near term. It was one of the reasons behind the Central Bank's decision to raise its interest rate by 0.75 percentage points at the end of March. The Bank also declared its intention to fulfill its mandated task of steering inflation towards the target. In the Bank's view, this is its most effective contribution to bringing about an orderly adjustment of the economy.

External debt of the economy has grown in pace with the current account deficit. At the same time, residents' foreign assets holdings have grown so rapidly that the net international investment position only deteriorated slightly in 2005 and was negative by 86 percent of GDP at the end of the year.

Factors explaining Iceland's relatively high internal and external indebtedness include the age structure of the comparatively young population, an exceptionally large proportion of privately owned housing and capital-intensive investment in power generating facilities financed by long-term borrowing.

One of the most notable developments in the Icelandic economy in recent years has been the expansion of financial activities to other countries. The risk diversification resulting from a broader operating base leaves the Icelandic banks far less dependent now on cyclical economic movements in Iceland. Banks have recorded very strong profits

with solid capital adequacy ratios. They are subject to effective banking supervision in Iceland, including stringent stress tests on a regular basis, which they have consistently met.

The medium-term prospects for the economy are good. Its solid and diversified structure, along with effective macroeconomic policy, should generate strong growth and continued prosperity in the years ahead."

STABILITY AHEAD?

Minister of Finance Árni Mathiesen is one of the leading figures in the campaign to inform investors about the state of the Icelandic economy. When asked why foreign ratings agencies have highlighted Iceland's large current account deficit, he replied: "The reason is twofold. First, there has been a sharp increase in foreign direct investment associated with the construction of aluminum smelter plants and related energy production capacity. Second, merchandise imports have risen sharply as consumer demand reflected the growing incomes and increasing household wealth. Fortunately, these imbalances appear to have peaked and are on their way to unwinding. The growth in merchandise imports is now projected to taper off this year and next while sharply increasing aluminum exports bring the merchandise trade into balance."

Currently the unions and the Confederation of Icelandic Employers, SA, are negotiating a wage rise which would extend the current labor agreement until the end of 2007. Both parties want the government to come in with tax changes favoring those with the lowest income. An agreement is considered likely. □

Go to the Mountain

Reaching the top of Iceland



There is no feeling like reaching the top, and this spring many Icelanders reached the top of Iceland. The country's highest point is Hvannadalshnjúkur, located in southern Vatnajökull, Europe's largest glacier. Two thousand one hundred and ten meters, no less (and it used to be more). It is not one of the world's highest mountains, but it may be one of the most difficult to climb in one day. And since it is the highest peak it is a challenge that no serious mountain climber in Iceland can withstand.

In Reykjavik, you can see Mount Esja on a good day. The mountain is about twenty minutes' drive from the city and during the summer you can see a line of eager hikers on their way up the slopes. It is not a very difficult climb, but if you are not in shape you have to take it slowly. At the top you encounter some cliffs, but there are chains to hold onto and even steps in the rock. So unless they suffer from a fear of heights, most people can make it to the top, which is about 800 meters high where most people go up. The climb takes approximately an hour and a half for the average climber. Those who are very fast run up in less than forty minutes, but don't worry if it takes you more than two hours. You are not alone.

This climb gives many people the taste for greater achievements. The main challenge for Icelandic mountain climbers has to be the country's highest peak, Hvannadalshnjúkur. It was a great shock to Icelanders a year ago when the Icelandic Prime Minister called a

press conference to announce that Iceland's summit was now nine meters lower than previously. It had gone down from 2,119 meters to 2,110 meters. The reduction was particularly painful since Sweden's highest peak is 2,111 meters.

In the past, only a handful of people tried to climb to the top of Hvannadalshnjúkur every year. This has changed over the past few years. Now groups of all kinds flock to the glacier: lawyers, pharmacists, work places – all are joining this new fad.

I & I decided to join one of the groups climbing Hvannadalshnjúkur this spring. The training was long and difficult. We took this very seriously and trained hard. The preparations consisted of climbing Mount Esja every Tuesday. The logic goes that if you can make the two-hour trip up and down the Esja seven times, then you can make the fourteen hours to Hvannadalshnjúkur once. Let me tell you, it does not necessarily work like that.

It is very hard to climb even a small mountain when you are not in shape. Supposedly practice makes perfect, but this time it was not the case. We also took a number of six-hour hikes over the weekend and those walks were very painful. Especially the next day.

But suddenly the end of May was here and we were at the foot of the mountain. We had arrived the day before and had to wake up at 4 am. That is very early. A few people from our group went to meet some people who were just coming down. That group had not had a good day. The walk had been hard and



visibility was only 30 meters at most. What good is it torturing yourself if you can't see anything from the summit?

The day after, we were at the foot of the mountain well before 6 am. The guides seemed to be confident people and told us that when we fell into a crack they would rescue us. Not if, but when. It was too late to go back.

The first hour was not bad. After an hour and half we were into snow and had to be tied together. Again, when you fall into the crack it is pretty safe when everyone is tied together. The day was beautiful. Nothing compares to walking on a glacier on a sunny day. But the walk is long and you need to drink a lot. If you



HVANNADALSHNÚKUR

can't make it, the whole group may have to return because the guides will not leave you. So imagine my apprehension when I suddenly felt a cramp in my right leg. Everyone had to stop and the guides told me to drink more water.

It always seemed as if you were almost there, but the snowy slopes never seemed to end. After more than seven hours we saw the peak. It appeared in the distance but we still had an hour to go. Somebody told me that we were walking over a volcanic crater filled with ice and snow. But don't think too much about that, because it has been 700 years since the volcano was last active.

The final climb to the top is the hardest. It was time to put spikes under our shoes and take up our ice axes. I wondered whether there was any risk of an avalanche, but I was too tired to think about it. Halfway there we came to a very deep fracture. Not so wide, but unfortunately on the other side there was a wall of ice. A guide made steps with his ice axe and we followed him, one after another. I almost fell but I was tied to the group and they pulled me up the steps.

Fifteen minutes later we were as close to heaven as you get in Iceland. I thought I was the only one who was terribly tired, but at that point in time it was worth it. Later on I

found out that everyone was tired. Maybe not the photographer, but the rest of us surely were.

I will not write about the snowstorm we braved on our way back. Nor about the avalanche that fell in the middle of our path. It fell again three days later and took with it a group of five mountaineers. They all survived.

Two things made the day great. We all made it back in one piece and one of the group said that he had just returned from a trip to Kilimanjaro, the highest point in Africa. He said our climb was harder. □

Through the Earth

Tunnels are making life easier in many parts of Iceland

In Iceland, you can live quite close to other people, yet never see them because they are on the other side of a mountain. Distances that are short on the map are long when you have to take the road. Some fjords in the east and west are surrounded by mountains and in many towns you cannot see the sun for two to three months. That does not mean it is totally dark, but rather that the mountains are so high that the sun can't reach above them in December and January. Traditionally, the best way of reaching those towns was by sea.

A case in point is the town of Siglufjörður. It is near the Arctic Circle in the north and very close to some of the best fishing grounds off the coast of Iceland. In the 1940s and 50s, when herring was the 'silver of the sea', Siglufjörður was quite isolated. The only road leading to it was a mountain road, some 600 meters above sea level. During the long winters the road was often closed. In 1968 a decision was made to dig a tunnel through the mountain and suddenly the town was accessible practically year-round. This, of course, was a great change for the 3,000 inhabitants, but the majority of the population did not notice much difference. The 800-meter long tunnel through the mountain Strákar was the first long tunnel in Iceland.

HUMBLE BEGINNINGS

The first tunnel in Iceland was not quite so ambitious. It was practically just a hole through a rock on the peninsula between Ísafjörður and Súðavík. This opening, constructed in 1948, was the first time Icelanders experimented with dynamite to pass through rock, not just to remove it. The tunnel was beneficial for those who lived there and later it became a part of the road from Reykjavík via the scarcely inhabited fjords leading to Ísafjörður.

The next tunnel was dug in the 1970s between Eskifjörður and Nordfjörður in eastern Iceland. The conditions were similar to those in Siglufjörður, although this time the tunnel was not at sea level but some 500 meters up in the mountain. This means that even today, the tunnel is often closed due to heavy snowfall in winter.

After this 640-meter long hole through the mountain, Icelanders decide to hang up their tunnel-digging shovels for more than ten years. Then two controversial tunnels were dug, one after the other. In the Eyjafjörður area, between Akureyri and Ólafsfjörður, the road was extremely dangerous. In winter it was slippery and often closed by avalanches, and in summer falling rock often threatened those traveling by car. If you went off the road the next stop could be 300 meters below, or even in the ocean. The tunnel was 3,400-meters long and meant a vast improvement in safety.

Fishing villages have traditionally characterized the West Fjords, and a century ago approximately one out of five Icelanders lived there. The fish were just off the coast, waiting to be caught. Now those villages are isolated and the population has been declining year after year. Some villages almost became deserted. But in the 1990s, three fjords were connected by a tunnel: Ísafjörður, Öndurarfjörður and Súgandafjörður. The 9,100-meter tunnel was by far the longest that had been dug in Iceland, and it was widely criticized for being too expensive and benefiting too few. But the social effects are clear. Three villages and the town of Ísafjörður are now one municipal area for all practical purposes. People can drive from one village and shop or work in another by traveling for only 20 minutes or so. Only about 700 cars pass through the tunnel every day, but it makes a world of difference to the people who live there.

UNDER THE SEA

In former times, folk tales spoke of mountains so high that nobody could traverse them except the birds of the air. But mountains are not the only obstacles for traveling humans. Many fjords cut deep into the land and it can take a long time to drive the perimeter of them to advance only a few kilometers. The only sub-oceanic tunnel is in Hvalfjörður, about 25 kilometers north of Reykjavík. All tunnels constructed up to that point were financed by the state, whereas the tunnel in Hvalfjörður was built by a private company. The road that connects Reykjavík to the west and north of Iceland was one of the most traveled in the country. By laying it under the sea, the distance was shortened by some 50 kilometers, or almost 15% of the distance between Reykjavík and Akureyri. A company was formed around the project, which was financed through private equity and loans. The undertaking was a huge success. The tunnel is the only toll road in Iceland, and in only a few years after its opening, traffic had increased so much that the toll price could be reduced considerably. Even those people who only travel occasionally don't hesitate to pay the 1,000 krónur (USD 13) to pass through the tunnel. There is even talk of building a new tunnel next to it so that each tunnel will have one-way traffic.

CONTROVERSIAL, YET BENEFICIAL

Though most people agree that tunnels are very advantageous, shortening distances and increasing safety, almost all the tunnels spark hot debates. Tunnels are expensive and in most cases they do not benefit very many on a daily basis. The Hvalfjörður tunnel is the only tunnel in Iceland with average traffic of over 700 cars per day: 4,100



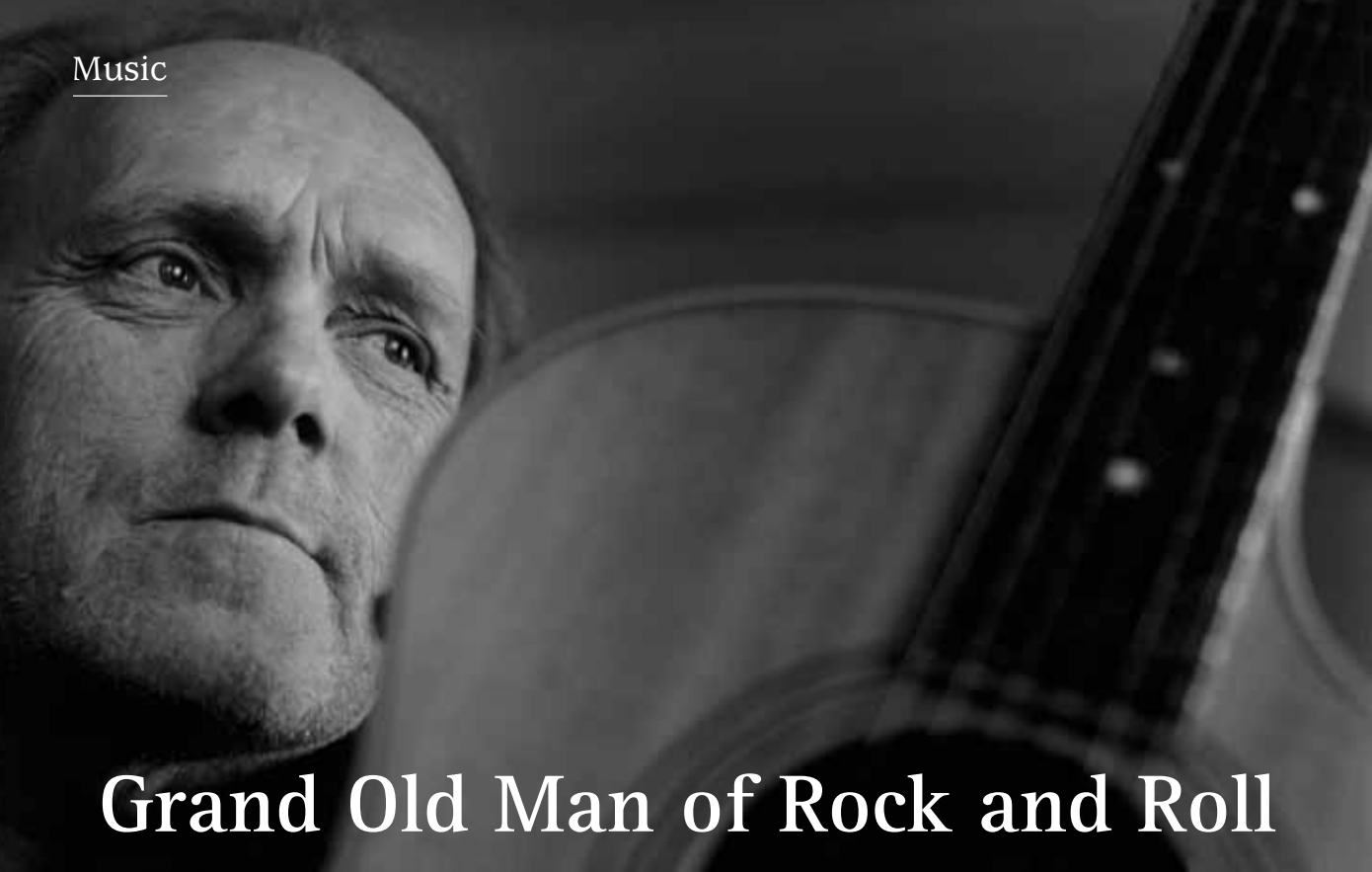
PHOTO: PÁLL STEFÁNSSON

cars on average pass through it daily. This is in sharp contrast to the 220 cars that drive through the tunnel leading to Siglufjörður. Now Althingi, Iceland's parliament, has decided that a new two-part tunnel shall be built from Siglufjörður to Ólafsfjörður, about 30 minutes' drive north of Akureyri. Those two municipalities decided to merge in an election this spring. People ask whether it is prudent to spend billions of Icelandic krónur on improving the roads leading to a municipality

like Siglufjörður, where the population has dwindled to 1,350 people.

In light of this controversy, it is somewhat surprising that two tunnels in the eastern part of Iceland have gone almost unnoticed in the public debate. One, a 1,300-metre long tunnel north of Hornafjörður, was built after repeated accidents in a mountain pass on the ring road around Iceland. Hardly anybody objected to that undertaking. The other, some 200 kilometers to the north of the first tunnel,

connects the municipalities of Reydarfjörður and Fáskrúðsfjörður. Alcoa is currently building an aluminum smelter in the area and the tunnel is making it practical for many more people to work in that smelter. Most of the municipalities in the area have now been merged, thus creating a stronger unit. This is precisely what tunnels do. Those who were once separated by high mountains or deep fjords are suddenly close to one another. □



Grand Old Man of Rock and Roll

Gunnar Thórdarson goes from rock to classic

More than forty years ago, rock band Hljómar was called the 'Icelandic Beatles from Keflavik'. Of course they were only called that in Iceland, since outside the country they were not well known. In those days, Keflavik was famous for three things in Iceland: the American NATO base, soccer and rock and roll. The three were not independent. There can be little doubt that by being next door to American civilization, young people in Keflavik were closer to the new wave of music that was flooding the West than the rest of the country. And many played soccer during the day and rock and roll at night.

Hljómar was formed by Gunnar Thórdarson, a young guitarist. Gunnar gathered together a few young men from Keflavik and seemingly overnight they became the most popular band in Iceland. At that time disco had not yet been invented and bands had plenty of opportunities to play in dance halls and schools. In the early days, Hljómar played cover versions of the most popular songs of the Beatles, Rolling Stones, Kinks and other major bands, but soon Gunnar's talent for songwriting became evident. He wrote one hit after another, such as *The First Kiss*, *Your Blue Eyes*, *Exciting Beauty*, and many others.

Gunnar's old friend, Rúnar Júlíusson, played

the bass and got the audience excited. He would jump down on stage from who knows where, get down on his knees, take off his shirt... in short do anything to whip the audience into a frenzy. Rúnar was a soccer star and was married to a beauty queen. Could anyone be cooler? Gunnar was more reserved, wrote a string of songs, created new arrangements of songs by The Beatles and other masters, and taught his band mates a trick or two.

Nobody in Iceland (at least nobody under the age of 20) doubted that Hljómar was as good or better than the most popular British bands. Yet their only attempt at worldwide fame under the name *Thor's Hammers* went nowhere. Iceland would have to wait another 20 years or so for the world to hear and recognize the talents of its musicians.

In 1969 Gunnar and Rúnar formed an even bigger band: *Trúbrot*. This was the time of the supergroups and *Trúbrot* made a number of albums, including the rock masterpiece *Lifun*, a description of a young man's life. Many consider *Trúbrot* to be the greatest Icelandic rock band ever, although they never achieved the popularity of Hljómar. Music was getting more complicated and the masses wanted something simpler.

Never one to give up, Gunnar now formed

the band *Lonely Blue Boys*, wrote a couple of pop songs, and once again was number one. In fact the group was Hljómar repackaged for a new generation. But around 1975 Gunnar launched a solo career. He started producing albums and working as a "serious" musician. He was the first Icelandic rock and roll artist to be recognized by the State by being granted a regular artist's salary from the state and in 2001 he received the Icelandic Order of the Falcon for his contribution to music.

Gunnar has written over 500 recorded songs, has composed music for three Icelandic films (*Agnes*, *Ódal fedranna*, *Reykjavík, Reykjavík*), has written music for television (*Steinbarn*, *Djákinninn frá Myrká*) and music for the theatre, including two musicals. He has produced over 150 records and arranged hundreds of songs for recording.

Recently, he has moved over to classical music, claiming that the gap between pop and classical music is highly exaggerated. Mahler is his favorite. He has written two classical masses, of which his second, *Brynjólfsmessa*, was first performed in spring 2006. He has also written musical works for The Icelandic Symphony orchestra. And in a way, things have not changed much. "The music just will not leave me alone". □



Art is Magic

Steinunn Thórarinsdóttir makes strange people.

She studies people. In many places in Reykjavik you can find her creatures. People made of clay, and iron. Steinunn Thórarinsdóttir is one of Iceland's most prominent artists.

"When I was a child I used to draw. I was determined to become an artist. In 1974 I got into a British art school and when I started making works in three dimensions I felt as if I had come home. Why not? We live in a three dimensional world." After she finished her BA degree she studied at the *Accademia di Belle Arti* in Bologna in Italy.

Steinunn opened an exhibition in Gallery 101 in June and is preparing exhibitions in Copenhagen in August and Toronto, Canada

in October. Next spring Steinunn and her people will make it to the Katonah museum in New York State. They are a traveling group.

ALWAYS SOMETHING NEW

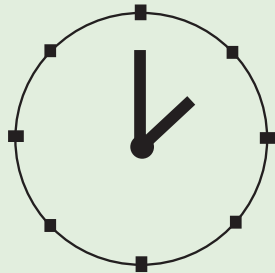
Steinunn says she has a need to be creative. "It feels as if I have something to offer, something to give to others. I need that type of work." If you go around Reykjavik you can see many of her "gifts". Her works are popular. She is currently finishing a sculpture in two parts: a work commemorating English fishermen. One part is set up in Hull, England and the other in Vík in Mýrdalur, southern Iceland. English fishermen fished along

Iceland's shores for centuries.

Steinunn says that even though she usually has her work mapped out when she begins, sometimes things just happen. "At its best, art is magic. I am not always in control." Her people do not look like specific people but have a certain dreamlike appearance. The names of her works are also somewhat mystical: *Shadows, Roots, Mission*.

"The work of an artist is difficult. I really must give 100%. I can't check out at five o'clock. It is also very personal to let others judge your creations. Part of being an artist is taking a stand. If you don't take a stand nothing happens, neither in art nor in life." □

A Diary of Business and Politics



March 5 Kaupthing (KB Banki) sold its remaining 8.75 percent stake in the privately-held investment company Baugur Group for a reported profit of ISK 3.3 billion (USD 44 million).

March 8 Merrill Lynch issued a warning on Icelandic banks. Merrill Lynch claimed that both Fitch's Ratings and Moody's had failed to take certain systemic risks into account when issuing their credit ratings for the Icelandic banks. Merrill Lynch believed that the banks should be rated "BBB" instead of "A," as currently is the case.

March 15 The District Court of Reykjavik acquitted the directors of Baugur Group of the eight remaining charges out of 40 originally filed last year. The other 32 charges had already been dismissed by the District and Supreme Courts on technical grounds.

March 15 US Deputy Secretary of State Nicholas Burns telephoned Icelandic Minister for Foreign Affairs Geir H. Haarde, informing him that the US government had decided to pull its fighter jets and helicopter rescue squadron out of Iceland by September of this year. The US troops have been in Iceland since 1951 when the two countries signed a defense agreement.

March 22 Dagsbrún, owner of media corporation 365, and telecommunications company Og Vodafone, bought the majority of shares in Kögun, Iceland's largest software house. Iceland Telecom had previously acquired 38 percent in Kögun, but lost the majority in the company to their competitor.

March 31 Jóhannes Vidar Bjarnason of Fjörúkráin in Hafnarfjörður was named Travel Entrepreneur of the year. Jóhannes is the third person to receive the title. He has been active in using the Viking heritage to benefit tourism in Iceland.

April 4 The special prosecutor appointed in the Baugur case, Sigurdur Tómas Magnússon, filed 19 new charges in the case. The new charges are based on 32 charges dismissed by the District Court of Reykjavik and by the Supreme Court, on technical grounds.

April 5 FL Group (owner of Icelandair) sold its 16.9 percent share in EasyJet through the investment bank JP Morgan. FL Group reportedly stands to receive ISK 30 billion (USD 400 million) for its shares, including ISK 12 billion (USD 160 million) in capital gains. This is one of

the biggest investment profits ever realized by an Icelandic party.

April 12 A committee set up by the Ministry of Education considers it desirable to merge the University of Iceland and the Iceland University of Education. A bill is expected to be put before the Althingi this autumn, and the merger is expected to happen in summer 2008.

April 15 Prime Minister Halldór Ásgrímsson said that the devaluation of the Icelandic krona must encourage discussions on the possibility of Iceland taking up the Euro as its currency.

May 3 The largest Icelandic banks have continued to show record profits. In the first quarter of 2006, Landsbanki reported earnings of ISK 14.3 billion (USD 191 million); Glitnir (Íslandsbanki) ISK 9.1 billion (USD 121 million); Kaupthing (KB Banki) 18.1 billion (USD 241 million); and Straumur-Burdarás ISK 19.1 billion (USD 255 million).

May 5 A new report claims that Iceland is financially stable. "Iceland's economy does have some imbalances that will eventually be reversed, [but] financial fragility is currently not a problem, and the likelihood of a financial meltdown is low," say the authors of the report are Dr. Tryggvi Thór Herbertsson, Director of the Institute of Economic Studies and a Professor of Economics at the University of Iceland, and Dr. Frederic S. Mishkin, the Alfred Lerner Professor of Banking and Financial Institutions at the Graduate School of Business, Columbia University. The report may be viewed on the website of the Chamber of Commerce, www.chamber.is.

May 12 Inflation reached its highest rate since 2001. With the exception of 2001, prices have not risen as quickly since the 1980s. Over the past three months, inflation has measured 15.9 percent, whereas in the past twelve months it has measured 7.6 percent.

May 18 Eimskip shipping bought a 55 percent share in Innovate, a British company specializing in storage and distribution.

May 27 In municipal elections, the Progressive Party of Prime Minister Halldór Ásgrímsson lost around half of its support. The Left Green and Liberal parties, both of which are in opposition to the governing majority, gained ground. However, this was not seen as a vote against the coalition since the Independence Party also increased its share slightly and the Social Democrats, the largest opposition party, lost support.

May 31 Investment company Exista acquired the entire share capital of insurance company VÍS. The brothers Ágúst and Lýður Guðmundsson are Exista's largest shareholders with 47.4 percent. The purchase price is ISK 65 billion (USD 867 million), and the owners of VÍS will receive 18.5 percent of Exista as part of the transaction. VÍS and Exista will be merged under the name Exista. The merged company is valued at ISK 288 billion (USD 3.8 billion).

June 1 Nordurál, the Icelandic subsidiary of Century Aluminum, has signed a letter of intent with Reykjavík Energy (Orkuveita Reykjavíkur, OR) and Hitaveita Sudurnesja, a geothermal power utility in the southwest of Iceland, for the supply of electricity to a 150,000-ton aluminum smelter which is to be built at Helguvík, close to Keflavík, in 2010. The letter of intent is non-binding.

June 21 A simmering feud at investment bank Straumur-Burdarás boiled over at a board meeting. Investors representing over ten percent of the publicly-traded company had demanded a shareholder meeting to elect a new board. Three of five directors, including the chairman, also voted in favor of firing the current CEO, Thórhur Mór Jóhannesson, replacing him with Burdarás's former CEO, Fridrik Jóhannsson. A few days later investors Magnús Kristinnsson and Kristinn Björnsson, who had been in the minority within the board sold their shares to FL-group.

June 22 The Federation of Icelandic Employers and the Federation of Icelandic Labor Unions agreed to revised terms for their agreements governing wages and other compensation. In connection with the agreement, the government will undertake to make certain changes. Among other things, income tax will be lowered by one percent and the individual deductible amount will rise by ISK 3,000, taking effect the end of this year. The individual deductible amount will be linked to the consumer purchasing index and the minimum monthly wage will rise from ISK 108,000 (USD 1,440) to ISK 125,000 (USD 1,667). The agreement will be in effect until year-end 2007.

statistics

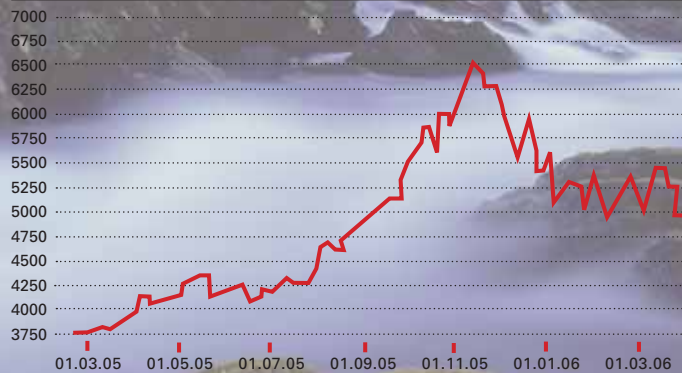
VITAL STATISTICS

Number of inhabitants Jan. 9, 2006	300,000	
GNP increase 2005 (estimate)	5.50%	
GNP	996 Billion ISK	13,3 Billion USD
GNP per capita	44,266 USD	
Total exports 2005	194.4 Billion ISK	2.6 Billion USD
Total imports 2005	288.9 Billion ISK	3.9 Billion USD
Balance of trade 2005	-94.5 Billion ISK	-1.3 Billion USD
Rise of stock index 12 months (to June 26, 2006)	32.3%	
Stock market turnover 2005	1,202 Billion ISK	16.0 Billion USD
Bond market turnover 2005	1,322 Billion ISK	17.6 Billion USD
Wage increase 12 months (May 05-May 06)	8.7%	
Inflation, 12 months (June 06)	8.0%	
Unemployment (Q1 06)	2.4%	

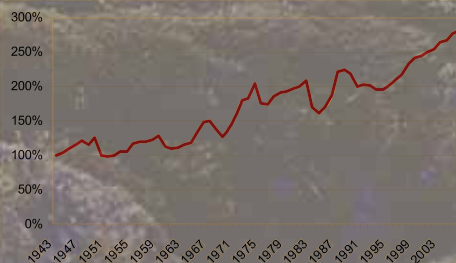
CHANGES IN STOCK PRICE MARCH. 3, 2005 - JUNE 26, 2006 (TOP AND BOTTOM)

Company	% change
Grandi, fishing	20.6 %
Icelandic Group	13.5 %
Actavis	10.8 %
Vinnslustöðin, fishing	10.5 %
Marel hf.	3.2 %
Bakkavör	-15.3 %
Avion Group	-20.0 %
Kaupthing Bank	-20.0 %
Landsbanki Islands	-28.0 %
FL Group, Investment (Icelandair, Sterling)	-32.2 %

ICELANDIC STOCK INDEX 12 MONTHS



BUYING POWER OF CONSUMERS IN ICELAND



The picture shows that the buying power of consumers in Iceland has almost tripled since the country became an independent republic in 1944. The increase in buying power has been steady for the last 11 years.



A Quick-Minded Investor

Pálmi Haraldsson Buys Low Budget Airlines

One of the businessmen leading the Icelandic expansion abroad is Pálmi Haraldsson. Pálmi studied for his masters degree in economics in Sweden. He started his business career at a co-operative company that sold Icelandic produce, Sölufélag Gardyrkjumanna. Little by little he increased his ownership in the company and was the main owner when it merged with Baugur. About the same time he bought a share in Icelandair and became a board member. He acquired most of his shares when the price was quite low, or at 1.6 per share. He held onto his shares until he could sell them with considerable profit at a price close to 9.0.

Other investments that Pálmi has been involved in include computer company Tæknival, one of his less successful investments. He sold the company early this year. A larger investment was Skeljungur, the local Shell distributor. Pálmi acquired the company in 2004 but soon sold it to Hagar, a

local Baugur subsidiary. In the spring of 2006 he bought the company back again and his investment company, Fons, now owns Skeljungur. His partner in Fons, Jóhannes Kristinsson, has been involved in most of the investments, but Pálmi has been the visible leader.

LOW BUDGET AIRLINES

The pair got noticed internationally when Fons acquired control of Danish low cost airlines Sterling for USD 70 million. This move was part of a strategy aimed at providing cost-effective travel across short and medium range destinations in Europe. Later the company bought Maersk airlines, Sterling's main competitor. The two companies were merged and after the merger FL Group, owner of Icelandair, acquired Sterling and Pálmi became an Icelandair shareholder once again. In 2004, when Fons sold

the shares in Icelandair, the company bought Iceland Express, a low cost airline in Iceland.

The picture has been complicated further by investments in Swedish low cost airlines Fly Me. The company also has the option to buy shares in or even all of Lithuanian Airlines.

A DECISION MAKER

Those who know Pálmi say that he is quick to make decisions and he does not hesitate long over his options. He has been one of the shareholders in Baugur Group and is close to Jón Ásgeir Jóhannesson, CEO of Baugur. Baugur Group has invested heavily in Britain and Denmark. Hence Pálmi has been at the forefront of the "Icelandic invasion" into those countries. His investments have often gone up in value very fast and today Pálmi Haraldsson is one of the wealthiest men in Iceland. □



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