

A herd of Icelandic horses of various colors (dark brown, light brown, and white) is scattered across a vast, flat, snow-covered landscape. The horses are mostly facing left or right, some appearing to graze. The snow is uneven, with patches of darker ground visible. The overall scene is quiet and serene.

I&I

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I&I

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PHOTO: GEIR OLAFSSON

David Oddsson

A statesman retires

David Oddsson has been a household name in Iceland for decades. He was prime minister so long that even after he became foreign minister, members of parliament still addressed him as Mr. Prime Minister. As a young man he hosted a popular radio show, and in 1982 he was elected mayor of Reykjavik. He held that seat for nine years, being re-elected twice with an ever-increasing majority. In 1991 he ran for chairman of the right-wing Independence Party against incumbent Thorsteinn Pálsson. Oddsson won the race and a month later he led the party to an electoral victory and started his long term as prime minister. He held that seat for more than 13 years, longer than anyone else in Icelandic history. In 2004 he switched cabinet seats with Halldór Ásgrímsson, Chairman of the Progressive Party. Oddsson became foreign minister but served in that capacity for only a year. In September he announced that he would be retiring from politics to take the position of Director of the Central Bank of Iceland. Geir H. Haarde, who had been vice-chairman of the Independence Party, took over in the foreign ministry and as chairman of the party. Both supporters and opponents agree that Oddsson will be remembered as one of the great statesmen in Icelandic history.

Kjarval

A great book for a great painter

Jóhannes Kjarval (1885-1972) is one of Iceland's most famous artists, renowned not just for his skills as a painter, but also for of the wide variety of styles and subjects he felt at home working in. Now a large and expansive book has been published, detailing the life and career of this true Icelandic master.

Credited with being a catalyst for the nation's cultural awakening at the beginning of the 20th century, he was already famous in his own right by that time. As the artist personally donated about 5,000 works of art to the city of Reykjavik before his death, The Reykjavik Art Museum-Kjarvalsstaðir was opened in 1973 to display these and the constant stream of other Kjarval works that have since been donated from all over the world. While many of his paintings are pure fantasy, representing such ethereal subjects as mythical sisters and women of the Amazon, they are quite clearly inspired by the Icelandic landscape. Jóhannes Kjarval was a master of many genres, but he is possibly best known for being able to paint nature from within, from the point of view of someone inside nature, looking out. Nesútgáfan publishes the mammoth work, weighing close to ten pounds, in both English and Icelandic. A book truly worthy of this unique Icelandic master.



Ragnhildur Gísladóttir

Energetic optimist receives award

In November, Iceland's President Ólafur Ragnar Grímsson awarded the Optimist of the Year award to musician Ragnhildur Gísladóttir. Ragga Gísla, as she is better known in Iceland, is one of the country's most popular singers. She recorded a children's record in 1976 at a young age, and in 1981 formed Iceland's first all-female rock band, Grýlurnar. That band featured in the 1982 hit *Med allt á hreinu*, one of Iceland's most popular films to date. The film focused on another wildly popular Icelandic band, Studmenn, whom Ragga Gísla joined in 1984 to become their lead female singer. Last year she resigned from the band to return to school, enrolling in the Musical Studies and Composition department at the Iceland Academy for the Arts. At the award ceremony, Gísladóttir was described as, "original and daring, talented, energetic and optimistic." The award is worth ISK one million (USD 17,000). Alcan in Iceland sponsors the award, which is now presented for the 25th time.



PHOTO: MÓRGINN/BLÁDÁRN INGVARSSON

Music

Iceland Airwaves festival a success

Iceland's premier music festival, Iceland Airwaves, filled Reykjavik in October with over 140 bands and scores of fans from all over the world. The music blared for five days straight.

The festival is sponsored by Icelandair and the City of Reykjavik, and produced by Mr. Destiny, a Reykjavik concert promotions company.

This year's event was a continuation of Airwaves' roaring success in the past. The festival has been attracting bands and music lovers since 1999, when it was born as a single-day event in an airplane hangar. This year it included a host of Iceland's best and most progressive bands, as well as many international groups.

Rolling Stone magazine gave the event a glowing review. In 800 words of flattery it enthused about all things musical coming out of Iceland. To wit: "The most anticipated foreign acts this year – American brother-sister act the Fiery Furnaces; New York modern-dance band Clap Your Hands Say Yeah; Argentine-born, Swedish-based singer-songwriter Jose Gonzalez – did not disappoint. ...But the real entertainment at Airwaves is the chance to join Young Iceland in investigating and cheering its own."

The next Iceland Airwaves festival is scheduled for 18-22 October 2006. Mark those dates in your calendar now!



PHOTO: MÓRGINN/BLÁDÁRN TORFÁSSON

The Battle for Reykjavík

Next year Icelanders will hold nationwide municipal elections. These will no doubt be hard fought in all regions, but the most exciting battle seems to be heating up in Reykjavík.



For the last 12 years, the so-called Reykjavík Coalition has held a majority in Iceland's capital. Three parties at the center and on the left wing form the Coalition: the Social Democratic Alliance (Samfylkingin), the Left Greens and the central Progressive Party. In the minority are right-of-center parties: the Independence Party and the Liberal Party. The Reykjavík Coalition was initially led by Ingibjörg Sólrún Gísladóttir, the Coalition's mayoral candidate and now chairman of the Alliance. Under her leadership the Coalition won the majority of seats on the city council for three terms in a row – no small feat, particularly as the Independence Party had ruled the city for almost the entire 20th century. When Gísladóttir decided to run for parliament in 2003, however, she stepped down as mayor under pressure from the other two Coalition parties.

Next, a non-partisan individual was appointed mayor of Reykjavík. Þórólfur Árnason was a former CEO of an Icelandic telecommunications company and enjoyed considerable popularity. He was, however, forced to resign after being linked to alleged price fixing by the Icelandic oil companies in a previous job with one of those companies,

a matter that had affected the City of Reykjavík. In November 2004 the third mayor in as many years took over, city council member Steinunn Valdís Óskarsdóttir.

The opposition Independence Party has had its share of problems as well. Former Minister of Culture Björn Bjarnason led the party in the 2002 elections, but failed to win a majority. After elections for the Althingi (parliament) in 2003, he was appointed Minister of Justice. His party then elected long-time council member Vilhjálmur Th. Vilhjálmsson to lead their delegation in the city.

In spring 2005, a rift became evident within the Coalition. The Alliance demanded that its share of elected seats be the largest of the three parties, citing the fact that it was leading in opinion polls. The other parties argued that the three had always participated on equal terms. The collaboration appeared to be getting increasingly on the nerves of all concerned – perhaps not surprisingly, since the parties that make up the Reykjavík Coalition have been on opposing sides in the Althingi since the Coalition was formed. The Progressive Party currently leads a coalition government with the Independence Party and the two



From left, mayor Steinunn Valdís Óskarsdóttir, Stefán Jón Hafstein, Gísli Marteinn Baldursson and upper right Vilhjálmur Th. Vilhjálmsson.

parties have jointly ruled Iceland for over ten years.

Repeated attempts to save the Coalition failed. When the Left Greens announced that they would present their own delegation of candidates next spring, it was clear that a twelve-year partnership had come to an end.

Opinion polls indicate that the Reykjavík elections could go either way, with a majority for either the left or the right. All polls show the Independence Party in the lead, but whether it is enough for a majority is unclear. All in all there are 15 seats on the council. Based on the polls, the Independence Party could win seven to nine seats (it now holds six), the Alliance could gain four to five and the Left Greens two or three. The remaining two parties, including the Progressive Party, would not win seats, according to the polls. If this does transpire, it would be a serious blow to Prime Minister Halldór Ásgrímsson, leader of the Progressive Party.

In such a close election one would expect the party members to rally behind their leaders. However, this is not so. Council member Stefán Jón Hafstein of the Alliance has said that he seeks to lead the party, just

as he sought to lead the Coalition after the 2002 elections. He was, in fact, bypassed when Steinunn Valdís Óskarsdóttir was appointed mayor, as a compromise between the three parties. The Alliance holds primary elections in February 2006.

Vilhjálmur Th. Vilhjálmsson has been a council member for over twenty years. In spite of that – or possibly because of it – he faced a challenge from Gísli Marteinn Baldursson, a young deputy council member for the Independence party. Baldursson is well known in Iceland as the host of a popular TV talk show. Vilhjálmsson won in the primary elections, which were held in early November, with about 54% of the vote.

It is far too soon to predict the outcome of the Reykjavík municipal elections. The Independence Party will no doubt put up a strong fight to regain control of the city that it held for so many years. Meanwhile the other parties must prove that they can win enough seats, even if they are not united. One thing is for certain, though: the Reykjavík elections will not be dull. □

PORTRAITS: GERR CLARFSON / HOUSES: RALL STEFANSON

Robo-Subs

If you're in the market for a small AUV (Autonomous Underwater Vehicle), you may be surprised to know that Iceland is one of only two countries making them.



Nestled among fishing-related factories and warehouses, the shiny Hafmynd building looks out of place at the point where Reykjavik goes from paved to gravel, and the industrial zone ends in a maze of oil tanks and landing stages. But as it turns out, the quayside is the perfect location to test miniature, torpedo-like submarines – an activity that justifiably scares the heck out of those onboard the surrounding boats.

The mini submarines were originally envisioned as a way to get Hafmynd's oceanographic equipment into the sea, but once they built their first in 1997, it became apparent that there was a market to be exploited. Only one other company, located in the USA, was creating anything similar, and they too were still in the research stage. The company of 12 people eventually settled into making mini submarines – a venture they call Gavia.

The machines are currently being used by the University of Texas in conjunction with the US military in Lake Garda, Italy, to locate an amphibious vehicle lost at the end of WWII with 20 souls on board. The company is also active in 'mine counter-measures' research being carried out by NATO at their Underwater Research Center in Italy.

This spring saw the release of Gavia's second generation AUV, three of which have already been sold for between USD 300,000 and 500,000. One for the US Navy, one for lakebed research with the

University of British Columbia and one for the Canadian National Research Council, who plan to operate the AUVs under city streets to locate leaks in water pipes.

Arnar Steingrímsson, the company's marketing coordinator, explains that the AUVs have applications for navies, scientists and the oil industry.

The company sees great potential in the oil industry, which currently uses conventional-sized AUVs weighing several tons to determine the suitability of the seabed for new pipelines and to monitor the condition of current pipes. "It costs a lot of money to send out big ships with cranes capable of getting them in and out of the water," says Arnar. "If we can save them money, we think we're onto a winner."

Gavia is now demonstrating its product vigorously around the world, including to BP, NATO and the Finnish navy. But their biggest potential market – the American military – has yet to bite.

"We've still only sold one to the (US) military because they are testing it against our two American competitors," says Steingrímsson. "If we win though, the American navy could buy up to 11 of them."

Considering that American military law dictates that they try to buy American goods wherever possible, the contract would be a major coup for Gavia, proving that their AUVs are, as they have long hoped, the best mini subs in the world. AE □

What is Landscape Worth?

Georg Gudni's paintings are exhibited all over the world.

Georg Gudni is one of Iceland's most highly praised artists, having received international acclaim for his mysterious, magical landscapes that so deeply affect the viewer. His paintings, exhibited all over the world, sell for sky-high sums. When Clint Eastwood was in Reykjavik, Gudni's works were among those he bought for his collection. Yet Gudni is an incredibly down-to-earth painter who lives and works in the house he shares with his wife and five young children, on the outskirts of Reykjavik.

In 2004, Georg Gudni published a book in collaboration with Lord of the Rings' star Viggo Mortensen. Mortensen had visited Gudni's studio on numerous occasions and had become particularly interested in his sketches and watercolors. "He told me that he published books and wanted to do a book project with me, combining writing, photographs and art," says Gudni. Mortensen himself is a writer, artist and photographer and owns Perceval Press, a Santa Monica based publishing company specializing in art and photography.

Three years later and I'm paging through the fruit of their collaboration *Strange Familiar – The work of Georg Gudni*. It's a beautiful book, featuring a retrospective of Gudni's work in random order: sketches, writing, photographs, paintings, as well as in-depth interviews and articles about his work.

On the book's cover is one of Gudni's charcoal works: "Vatnaöldur" (water waves), from 2004. Until now I've mostly seen his famous green/gray oil paintings and I ask him whether his coal works are sketches or works in their own right. "A lot of them are works, and have been exhibited as such. But I use coal and watercolor in my sketchbooks too." He shows me rows of identical black sketchbooks, opening one of them. In it there are color essays, sketches, writing. "What is landscape worth?" I see scribbled in pencil. So what is landscape worth to him? "My father was a geologist and I spent much of

my childhood going with him on highland expeditions. I guess that's where my fascination with maps stems from. I like to look at maps, imagining how the terrain looks..." Interestingly, most of his paintings don't actually depict any specific landscape or mountain. They are figments of imagination – yet strangely familiar – reflected in the book's title. "My pictures stem from a number of things. I sketch landscapes, I photograph them, and I remember the feeling those landscapes gave me. When I paint, I paint in layers. It's like I'm trying to capture time. Each layer is the landscape at a different time. Just like a geologist can read the land and how formations, canyons and deltas were made, it's an opportunity to see thousands of years back in time. I'm fusing memory into the works, each layer is based on some kind of memory. I am trying to understand and discover how things were, what kind of light was present there at that time. As a result, specificity becomes unnecessary. It is a landscape but I don't want you to connect it in any way to anything specific. In that sense it turns into something that sometimes becomes almost abstract."

Gudni says that his influences are the great Icelandic landscape painters of the past – Thórarinn B. Thorláksson, Jón Stefánsson, Ásgrímur Jónsson and 19th century Scandinavian painters, in particular Harald Solberg whose work he refers to in his *Thríhyrningur* (1996). "We all have things that catch our eye and affect us and are hidden in the depths of our memory. In this way they are influences, referrals to our past, snapshots of our thoughts." Gudni explains that his early works in particular all featured mountains, "because for me the mountain was a symbol of the Icelandic landscape, of Iceland, and the history of Icelandic painting." His recent work seems to be more about wide open spaces, flatlands where the earth meets the sky, the focus seemingly on weather conditions, like the kind of hazy, nondescript visions you might see through a car window. AMB □



A Hot Place for Cool Movies

In recent years, Iceland has been a very popular place for international filmmaking. James Bond has been here twice, Batman was here, and lately such different heroes as Beowulf and Clint Eastwood have found Iceland the perfect setting for their movies.

There are many unforgettable places in Iceland, but the most important factor may be how the landscape can differ from one place to another. Within a small area you might find a desert, a glacier, a waterfall, a beautiful lake and some very unique mountains. And the hot springs and lava fields are ideal if you want to create a surreal atmosphere.

The first films by foreign filmmakers were shot in Iceland more than 80 years ago. These were silent movies made by Danish filmmakers, based on books by Gunnar Gunnarsson and Gudmundur Kamban, two Icelandic authors living in Denmark. In fact, until recently most films made in Iceland were based on Icelandic material. The Sagas, or novels by Icelandic authors, were usually the inspiration. However, directors have now discovered that you can film in Iceland even if your story has no connection to this country.

Take *Flags of Our Fathers*, Clint Eastwood's new movie. The film crew of this World War II epic came to Iceland because of the black sand. Kokayi Ampah, location manager for the project, has said that while in Hawaii he met a gas station owner who asked him what he was up to. When he answered, "Searching for black beaches," the gas station owner replied, "Oh, just like in Iceland." It's an interesting story and he may well have met the gas station owner, but we also know that Ampah met people from the Film in Iceland Agency at a location show in Los Angeles. Two weeks later he was in Iceland and saw for himself that there were plenty of black beaches. "When it came down to it, Iceland was the best place," said Ampah.

Kokayi Ampah has worked in the movie indus-

try since 1968 and was reportedly Hollywood's first African American location manager. The job consists of scouting locations for upcoming movies, making sure the location fits well with the screenplay, getting all the relevant permits, and making sure the location is in good condition after shooting is finished. He has worked on a number of Clint Eastwood movies and his credits include *The Shawshank Redemption*, *The Color Purple* and *End of Days*.

When searching for the location for *Flags of Our Fathers*, he began by looking in the United States. "In this instance we were looking for black beaches and volcanoes," he said. "The beaches we found in the US were not that suitable, some had palm trees and cliffs which did not fit into the screenplay, some even had turtles."

He says the shooting went well, although he found that the bright summer nights took some getting used to. "While it was bright outside, I wanted to stay awake. I don't go to bars, but often realized that it was 1am and I was still online or watching TV. Usually I go to bed early."

The producers of *The Amazing Race* had met the Film in Iceland team at the same show a year earlier and subsequently also decided to film an installment in Iceland.

James Bond first came to Iceland in 1985 for the opening scenes of *A View to Kill*. On that occasion, Iceland stood in for Communist Siberia. In *Die Another Day*, Iceland is actually Iceland, and is the site of a very large castle made of ice. Unfortunately no such castle exists in reality, much to the dismay of many tourists, but you can sail amongst the icebergs at Jökulsárlón lagoon, which featured

so prominently in the film. Iceland's spring weather can hardly be called dependable, but this year it was perfect for the *Die Another Day* shoot, freezing the lagoon, with no winds and clear skies.

The film version of the popular computer game "Lara Croft: Tomb Raider" transported more than 250 crewmembers, security guards and extras to the town of Höfn in the southeastern part of the country. Angelina Jolie impressed the locals when she drove a team of sled dogs across the glacier in "Siberia."

The list goes on: In March 2004, Christian Bale, Liam Neeson and 200 other cast and crew members were on location at Vatnajökull glacier, which doubled for the mountains of the Himalayas in *Batman Begins*. The producers of the thriller *The Last Winter* starring Ron Perlman, Connie Britton and James LeGros, came to Iceland in winter to shoot in locations that the world will see as northern Alaska. And in *A Little Trip to Heaven*, starring Forest Whitaker and Julia Stiles, rural Iceland is transformed into a small town in Minnesota.

Iceland's success in attracting film projects, large and small, is not only due to the varied scenery and locations, or the generous incentive of a 12% refund of all filming costs, but also the skills and expertise found within the Icelandic film industry. Flexibility, positive team spirit and dedication to the project are all important factors in a successful film production – both for the creative outcome and the budget. After all, in Iceland people are used to working fast and doing what has to be done. □

Film in Iceland Agency is run by the Invest in Iceland Agency.



Photo from the Canadian movie *Beowulf & Grendel*, directed by Sturla Gunnarsson.



Stills from the James Bond movie *Die Another Day* that was partly shot on location in Iceland.



We are the Champions

Iceland moves towards the top of international lists.

There is no place like home. That's no news to anybody, but it seems that there is no home like Iceland. And this is not just the opinion of the Icelanders. (Of course they would think so!) Iceland has been moving upwards in international surveys. One of the most respected benchmarking survey in the world ranks Iceland number four in overall competitiveness. Iceland is said to be the least corrupt country in the world, the second-best country to live in and number three in terms of gender equality. In other words: we must be doing something right!



Economic freedom has been increasing fast in Iceland and overall prosperity along with it. The country was opened up economically when it joined the European Economic Area in 1993. Since then many state-run companies have been privatized and taxes have been reduced. Since corporate taxes on profits were lowered in stages from 50% to 18% where they currently stand, government revenue from taxation has gone up. The standard of living has improved year by year. Spending power has risen more than 50% in the last decade.

WE LIKE COMPETITION

The IMD Competitiveness Center recently issued its report on World Competitiveness in 2005. Iceland came in fourth place, behind the USA, Hong Kong and Singapore. This is one step up for Iceland and it still comes in ahead of the other European countries. The result is based on the health of the domestic economy, international trade, public finance, productivity, the labor market and overall infrastructure, among other things. Iceland received a score of 85.3 while Sweden (14) got 76 and the United Kingdom (22) got 68.5.

EQUAL RIGHTS?

The Nordic countries have traditionally been leaders in equal rights matters and in a report

by the World Economic Fund Iceland came in third place, after Sweden and Norway. Denmark and Finland were in fourth and fifth place. According to the report, Iceland ranks high when it comes to women's share in political decisions, in education and health. The country is somewhat lower, or number 17, when it comes to wage disparity between the sexes. The US came in number 17 on the overall list and of the 58 countries on the list, Egypt came in last. The report claims that it is not surprising that the Nordic countries are also high on the list in terms of competitiveness. "The Nordic countries seem to have realized the economic gains that result from equal rights and the increased participation of women in all the functions of the society. The states where half the citizens are not reaching their full potential are obviously reducing their own capabilities," says Augusto Lopez-Claros, one of the foremost economists of the WEF.

HUMAN DEVELOPMENT - GOING BEYOND INCOME

The human development index (HDI) focuses on three measurable dimensions of human development: living a long and healthy life, being educated and having a decent standard

of living. Thus it combines measures of life expectancy, school enrolment, literacy and income to allow a broader view of a country's development than does income alone. In a report published by the United Nations Development Program, Iceland came in number two measured on this index. Only Norway scored higher. On life expectancy Iceland comes in third (80.7 years) and on GDP per capita it comes fourth (USD 31,243). Long-term unemployment is very low (0.4%). As stated previously, Iceland is doing relatively well in terms of gender equality. In this report, Iceland ranks 4th in the gender empowerment measure. Women hold 30.2% of parliamentary seats, and make up 55% of professional and technical workers. Moreover, 29% of administrators and managers are women.

DON'T TRY TO BRIBE US

"Corruption is a major cause of poverty as well as a barrier to overcoming it," says Transparency International Chairman Peter Eigen. "Corruption must be vigorously addressed if it is to make a real difference in freeing people from poverty." The occasion was the publication of the 2005 report by Transparency International on corruption in 159 countries in 2005. Iceland came in first place of countries with the least corruption, with an overall score of 9.7, just ahead of Finland, New Zealand and Denmark. This was good news for the politicians and the market alike. When the market is free of scandals the public's trust goes up and the economy is strengthened.

David Oddsson, former chairman of the Independence Party and prime minister for over 13 years, recently retired. On that occasion he said that, in looking back on his career in politics, he is particularly proud of the fact that Iceland now ranks near the top on so many international lists. In the past, we only thought we were the best. Now, it seems, the rest of the world agrees. □

PHOTO: PALL STEFANSSON

PHOTO: GERD OLAFSSON



Women hold 30.2% of parliamentary seats, make up 55% of professional and technical workers and 29% of administrators and managers are women.

The Secret World of the Lunar Landscape

Few areas in Iceland, or even the world, offer such a wide spectrum of geological formations as the Reykjanes peninsula.



Many people feel that they have reached the moon when they land in Keflavik, Iceland. Indeed, the road to Reykjavik seems to offer nothing but lava. But if you give it a chance, the Reykjanes peninsula is definitely worth exploring.

The first stop along the peninsula is the Blue Lagoon, Iceland's most popular tourist destination. Located just ten minutes from Keflavik Airport, the Blue Lagoon is an otherworldly experience. Created by the run-off hot water from the nearby geothermal power plant, the lagoon is literally carved into a lava field, offering travelers an opportunity to converse with nature while relaxing in silky, turquoise water.

The Reykjanes peninsula provides a unique glimpse of the beginnings of nature, the way the earth appeared before humans left their gigantic footprint on the soil. After your Lagoon trip, head to the Reykjanes ridge, the spot where the Eurasian and North American plates meet, and are slowly pulling apart at a rate of two centimeters per year. Obviously this is a point of mass friction beneath the earth's surface, evidence of which is visible in the scars of lava fields spreading across the rugged peninsula, leftovers from numerous eruptions. And for anyone who's wanted to literally straddle two continents there is, south of Hafnir, a bridge that allows you to do just that. It's called, prosaically enough, The Bridge Between Two Continents.

Then there is Keilir, the cone-shaped mountain that seals the impression that you've

landed on the moon. On a good day you can hike to the top and take in the peninsula in all its rugged beauty, watching as the lava fields spread to the sea. If you're into geothermal boreholes, follow the smell of sulphur to the southern side of the peninsula, and make your way over the rocky highway to Krýsuvík. The area is downright prehistoric in its surroundings, dotted with bubbling clay pits, steaming hot springs and hissing fissures, to say nothing of the remarkable palette of color painted onto the landscape. Continue driving to Kleifarvatn lake and you'll come upon the isolated Krýsuvík church, which looks as if it has no business being in the middle of all that emptiness. During the summer, the brown church is nearly camouflaged by the reddish-brown starkness of the surrounding landscape.

Providing a respite from the scarred lava fields, Kleifarvatn lake is part of the Reykjanes Nature Reserve. This is one of the most serene spots on Reykjanes, unless the wind is blowing hard, in which case you might want to visit a museum or two.

Despite being made up of a collection of small fishing villages, the peninsula is home to loads of museums, like the saltfish museum in Grindavík, the herring museum in Gardur or the art museum in Reykjanesbær. However, in keeping with the geological theme you might want to visit Gjáin (The Rift), a museum on geology at Eldborg, next to the Blue Lagoon. There you can experience an earthquake with the

museum's state-of-the-art sound system. The Rift provides visitors with a first-hand look at the local geology, including how all that geothermal energy is harnessed.

LEAVE THE LIGHT ON

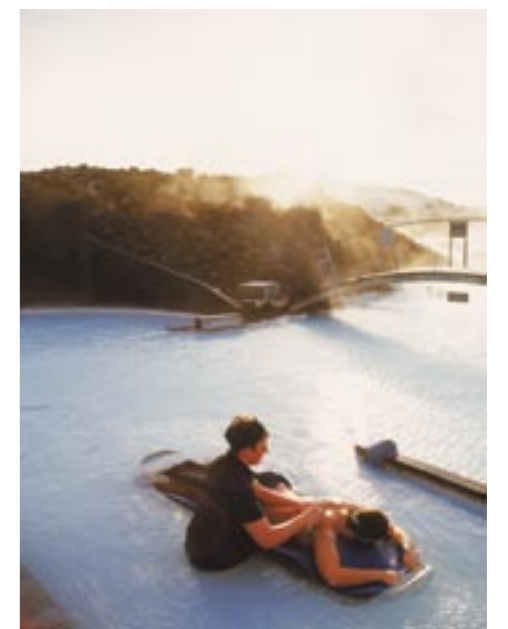
Reykjanes peninsula is a birdwatcher's paradise. Two main cliffs stand out, Hafnaberg and Krýsuvíkurbjarg, where ornithologist and laymen can enjoy observing shag, gulls, kittiwake, guillemot and the occasional puffin. There are so many birds in the area that a derelict lighthouse in the small town of Gardur was once used as a center for studying the local bird life.

The Reykjanes peninsula has plenty left over from the high days of fishing, a time when the small towns dotting the peninsula were devoted strictly to the sea. Today, large companies have gobbled up the majority of the fish quota, leaving the smaller towns somewhat dry. However, traveling the peninsula enables visitors to backtrack to the days when nearly every dollar earned came from the sea. Hence all the lighthouses erected along the rocky shores. While some are nothing more than beautiful landmarks, a few still guide boats safely to shore.

So while the Reykjanes peninsula may look like the moon in its barren ruggedness, do not dismiss it as unworthy of exploration. After all, wouldn't you explore the moon if you had the chance? □



PHOTOS: PALL STEFÁNSSON



The Reykjanes peninsula provides a unique glimpse of the beginnings of nature, geothermal power and the healing comfort of the Blue Lagoon.



Taking off from Timber

The quiet investor.

Jón Helgi Gudmundsson is not one of the more flamboyant modern executives. He owns one of the largest companies in Iceland, but cites the main reasons for his success as good employees and luck. Jón Helgi is the owner of BYKO, a leading retail store for building materials; he owns Kaupás, the second largest food retail chain in Iceland; timber factories in Latvia; and a share in KB Bank, Iceland's largest banking institution.

From the outset, BYKO has been one of the two major players on the building materials market in Iceland. Jón Helgi has been in the business a long time. His father was the co-founder of BYKO and Jón Helgi started working in the company at the age of fifteen. In 1998 he founded Elko in Iceland, a leader in the sales of inexpensive appliances and electronic equipment. The effect was a 30% reduction in price on the Icelandic electronics market.

In 2003 Jón Helgi acquired Kaupás, the operator of supermarket chains Nóatún, 11-11 and Krónan. In recent years Hagar, a company majority-owned by Baugur Group, has domi-

nated the food market. Many thought that it would be impossible to compete with this extremely strong opponent, but in spring 2005 Krónan announced price reductions, thereby launching a price war that was greatly appreciated by consumers.

In 2002 Jón Helgi established a holding company, Norvik. He acts as CEO of that company. Last spring he decided to step down as CEO of BYKO and hired Ásdis Halla Bragadóttir, mayor of Gardabær, a municipality adjacent to Reykjavik, to head the company. He continues to serve as chairman of the board. In 2004 the combined turnover of the Norvik companies was ISK 27 billion (USD 440 million) and it was the 11th largest company in Iceland. In 2003, Jón Helgi was selected Entrepreneur of the Year by *Frjáls verslun*, Iceland's leading business magazine.

Expansion into Latvia began in the 1990s. In 1995, when many were afraid to invest in the newly turned capitalist country, Jón Helgi purchased a small timber factory. He has since expanded that factory to incorporate a modern production plant. In 2003 he added another

Latvian timber production company to his portfolio and now has close to 600 employees in Latvia. BYKO has also opened a chain of building materials stores in Latvia under the name Depo. Moreover, he owns a section of forest in Russia, from which timber for the production is sourced. It is clear, therefore, that BYKO LAT has grown substantially in the Baltic area. When we visited one of his timber companies in Latvia, however, it transpired that some of its executives had no idea that their owner had substantial holdings in Iceland, as well.

Jón Helgi says that, as an investor, he merely seizes opportunities as they come. "It is not a question of fulfilling any dreams. I have been able to hire good people and they have worked with me for a long time in building up the company. I have been lucky." He has been lucky in his private life as well. He and his wife Berta have three children and a number of grandchildren. Those who know Jón Helgi Gudmundsson believe that his skills and his luck go hand-in-hand. □



PHOTO: MORIS BLAISEK/JAPAN PHOTO JOURNALISM

The Meditating Champion

Ólafur Stefánsson is one of the best handball players in the world.

Different nations favor different types of sports. Icelanders have consistently done well in two types of competitions, chess and handball. European handball is much like soccer except that you use your hands instead of your feet. Most of the members of the Icelandic national handball team are professional players with some of the best teams in Europe. The strongest of this elite group is Ólafur Stefánsson. Following the World Championships in 2005 he was selected to play on a team made up of the best handball players in the world.

Ólafur Stefánsson is one of the most popular athletes in Iceland. A tall man at 1.97m, he is captain of the national team and one of the most experienced players in the country. He is 32 years old and has been playing the game since he was a boy.

When he played with Icelandic sports club Valur, it was considered the club to beat. Yet not many teams were successful and for many years running Valur was the national champion. It was inevitable that Ólafur would join a professional club in Europe. He played for Wuppertal and Magdeburg in Germany and enjoyed considerable success. His teams have won national titles as well as European championships. In 2001 and 2002 he was elected Germany's best player. He now plays with Ciudad Real in Spain and continues to be their strongest team member. In his first year, the club won the Spanish championships, and later he led them to second place in the European championships.

Ólafur is one of the most dependable players around. He is both a very strong defense player and one of the greatest left-handed players

on offense. He rarely loses his temper. As it happens he is not only a world-class handball player but is also interested in philosophy and spiritual matters. Those qualities, combined with natural talent and relentless practice, have made him into the star he is.

Ólafur Stefánsson has two brothers and a sister. All are good players in their chosen sports. Best known is his youngest brother who played basketball in the NBA league for a time and is now playing in Europe. Icelanders have great respect for Ólafur and he was selected Athlete of the Year in Iceland in both 2002 and 2003. He has been called the greatest handball player in the world, yet success has not gone to his head. Ólafur continues to be the philosophic champion who simply concentrates on doing his very best. □

Landsbanki Íslands

Growing fast.



Two Directors, **Halldór J. Kristjánsson** (left) and **Sigurjón Th. Árnason** (right), now lead the bank.

Banking is fast becoming one of the major growth industries in Iceland. The three commercial banks have all been very profitable in recent years and have been actively involved in financing much larger transactions than ever before. Landsbanki (The National Bank of Iceland) is Iceland's oldest full-service commercial bank and since its inception in 1885 has played a leading role in the successful economic progress of Iceland. The bank was transformed into a limited-liability company on 1 January 1998, while still 100% state-owned. The bank was privatized in increments and the sale was completed in February 2003. The bank's present shareholders number around 14,000. Two Directors, Halldór J. Kristjánsson and Sigurjón Th. Árnason, now lead the bank.

The bank announced that it had made ISK 11 billion (USD 180 million) in profits for the first two quarters in 2005, compared to ISK 6

billion (USD 95 million) for the same period in 2004.

Landsbanki currently has 46 branches and sub-branches throughout Iceland. However, the bank's main growth has been abroad. In 2000 it purchased the majority of the shares in Heritable Bank Ltd. in London and currently owns 100% of its share capital. In 2003, Landsbanki acquired a 100% holding in a private banking operation in Luxembourg, subsequently renamed Landsbanki Luxembourg S.A., as another step towards increasing the Group's international activities.

In August 2005 a merger of Burdarás, an Icelandic investment company, with Landsbanki and Straumur investment bank increased the equity to ISK 96 billion (USD 1.6 billion). Sigurjón Th. Árnason was pleased: "Clearly, this transaction creates enormous opportunities for Landsbanki to make new advances on foreign markets, increasing

shareholder value. This means that the bank can expand by some 50% without seeking additional capital from its shareholders."

In September 2005 the bank announced the acquisition of Kepler Equities SA, a leading European securities company, providing research-based institutional brokerage and securities placement. Kepler has 240 employees, and operations in Amsterdam, Frankfurt, Madrid, Milan, Paris and Zürich. Halldór J. Kristjánsson said on that occasion: "The partnership between Landsbanki and Kepler will generate value to customers through the combination of Kepler's client relationships and Landsbanki's banking expertise and financial resources. Furthermore, combining Kepler's and Teather & Greenwood's research will give us pan-European coverage of 665 companies, representing 87% of the total European market cap." □

PHOTOS: GER OLAFSSON

Flying all Over

Icelanders are investing in airlines.



Clockwise from top left, Sterling chairman **Pálmi Haraldsson**, CEO of FL Group **Hannes Smárason** and Avion chairman **Magnús Thorsteinsson**.

Icelanders are seeking the friendly skies. Not only as passengers but also as entrepreneurs in the air transport sector. Most people are familiar with Icelandair, which has been the main channel of transport in and out of Iceland for decades. Many have tried to compete with the airline throughout the years and have given up, usually after only a short battle. However, in recent years this trend has been reversed and Icelandic business interests in the air transport sector have now vastly increased.

BUYING PLANES

This year, FL Group, parent company of Icelandair, and Avion Group, owned by Icelandic entrepreneur Magnús Thorsteinsson, have invested strongly in their aircraft fleet. By the end of October, the two companies had acquired 36 planes worth a total of ISK 150 billion (USD 2.5 billion). FL group bought eight used Boeings, four of those together with another airline. The company also ordered 17 new Boeing jets, the first of which will be delivered next year. Icelandair will not be using all of the aircraft in its own operations, however. Some will be leased to other airlines, such as Air Baltic in Latvia and Singapore Airlines Cargo. In February, FL

Group acquired two companies specializing in airfreight: Bláfugl (Bluebird Cargo) and Flugflutningar. Bláfugl operated five Boeing 737s when FL took over.

Avion Group is the holding company of Air Atlanta and Excel Airways. Avion has signed deals for eight Boeing and three Airbus aircrafts this year. Three of those are passenger planes that will be converted into freight planes, purchased from China Airlines in Taiwan. There are over 60 Boeing and Airbus aircrafts in their fleet.

In July, Avion acquired a 19% share in the American company Casino Express, which specializes in flights to Las Vegas. Avion also made a large investment in Eimskip shipping, Iceland's oldest and largest shipping company, founded in 1914.

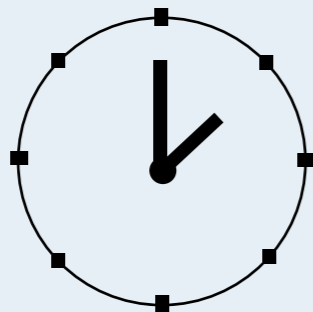
FONS BUYS STERLING AND MAERSK

Two Icelandic entrepreneurs, Pálmi Haraldsson and Jóhannes Kristinnsson, own Fons Holding. The company is an active investor and owns a 20% share in Hagar, which operates numerous retail stores in Iceland. Hagar's current share of the Icelandic food market is more than 50%. In 2005 Fons acquired Scandinavian low-budget airline Sterling, and the follow-

ing summer bought Maersk Air, a low-budget Danish airline. Both airlines had been showing heavy losses and the new owners immediately announced substantial budget cuts.

No sooner had the takeover of Maersk been finalized in September than talks between FL Group and Fons commenced about FL Group's takeover of Sterling. The discussions did not take long. On October 23, CEO of FL Group Hannes Smárason announced that a deal had been finalized. The purchase price was approximately ISK 15 billion (USD 250 million), but with a clause stipulating that the price can increase or decrease by a third, based on EBIDTA in 2006. With the deal, FL Group's annual turnover is estimated to become ISK 100 billion (USD 1.7 billion). Pálmi Haraldsson will stay on as chairman of Sterling, which will continue to be run as a separate company within FL Group. Jörgen Lindegaard, CEO of Scandinavian Airlines, takes a wait-and-see attitude and anticipates that SAS will cooperate with Icelandair on certain flights as before, since Sterling and Icelandair are not merged. "We don't care who owns Sterling as long as it is an independent company. Sterling must not compete with SAS on those routes where we cooperate with Icelandair," he said. □

A Diary of Business and Politics



ON JUNE 2 it was announced that Magnús Gústafsson would retire as CEO of Coldwater Seafood in the US and Evar Agnarsson would succeed him. Gústafsson had held the reins at Coldwater for 21 years. Agnarsson is 46 years old and was previously CEO of Samband of Iceland. Gústafsson has been appointed General Consul of Iceland in New York.

OVER THE MONTHS OF JUNE AND AUGUST, entrepreneur Karl Wernersson acquired further shares in Íslandsbanki. He and his family now own about 17% of total shares in the bank. On June 30 the Financial Supervisory Authority announced that Wernersson had been approved as a majority owner in the Sjóvá insurance company.

ON JUNE 16, Bogi Þór Siguroddsson, owner of Rönning, acquired all shares in Sindri Stál, an importer of steel, building materials and more.

IN JUNE, a group led by young entrepreneur Kristinn Vilbergsson acquired Iceland's premiere bookstore chain, Penninn. Penninn had been owned by the same family since 1932.

ON JULY 1, three members of the board of FL Group resigned due to disagreement within the board. A sizeable number of shares were sold and new shareholders include Baugur Group and Katla Investment, which is owned by Magnús Ármann, Sigurdur Bollason and Kevin Sanford. A new board was elected and Hannes Smáráson remained chairman.

ON JULY 28 it was announced that state-owned Iceland Telecom had been sold for ISK 66.7 billion (USD 1.1 billion). The buyers were led by Exista Invest and Kaupthing bank. The bid was the highest of three separate offers for the company.

IN AUGUST, investment firm Straumur and Landsbanki (The National Bank of Iceland) announced that they were dividing the Burdarás investment company between them. Burdarás had previously been the investment arm of

Eimskip shipping, which was taken over by Landsbanki in late 2003. Fridrik Jóhannsson, CEO of Burdarás, subsequently resigned and bought the majority of shares in TM Software. Straumur Investment will henceforth be called Straumur-Burdarás.

ON AUGUST 17, a case was filed in Reykjavik District Court against six people, including the owners of Baugur Group. The six were charged with 40 different counts of economic crime. In October the Supreme Court threw out most of the charges, as they were deemed flawed. The ruling was considered a serious blow to the Icelandic National Commissioner of Police. A new prosecutor was subsequently appointed in the case.

IN SEPTEMBER, former Prime Minister David Oddsson announced that he was retiring from politics. (See page 4). A cabinet shuffle ensued. Geir H. Haarde, minister of finance, became foreign minister. Árni M. Mathiesen, minister of fisheries, became minister of finance, and Einar K. Gudfinnsson, MP, became minister of fisheries. All are members of the Independence Party, which has been in power since 1991.

IN SEPTEMBER, Icelandic company Fons took over Maersk Air in Denmark. Fons also owns Sterling Air and has merged the two companies under the Sterling name. Almost immediately following the transaction, FL Group (owner of Icelandair) expressed interest in buying Sterling. The discussions did not take long, and on October 24 it was announced that Icelandair had acquired Sterling. On that same day, CEO Ragnhildur Geirsdóttir resigned her post and Chairman Hannes Smáráson took over. In November, Skarphédinn Berg Steinarsson succeeded Smáráson as chairman.

Icelanders have been making investments in Denmark. A group led by Árdegi acquired Merlin, a Danish chain of electronic goods stores, in September. In October, Nýherji, an Icelandic computer firm, bought Danish software house Applicon.

Althingi, Iceland's parliament, elected a new speaker on October 1. Former Minister of Justice Sólvieg Pétursdóttir succeeded Halldór Blöndal, who had been parliamentary speaker for the previous six years. Blöndal will take over as chairman of the Foreign Relations Committee of Althingi, a post previously held by Pétursdóttir.

IN OCTOBER, Iceland Telecom was named Market Company of the Year 2005 by Icelandic marketing association ÍMARK. Iceland's President Ólafur Ragnar Grimsson presented the award.

IN OCTOBER, auto services company Bilanaust acquired three British companies, which specialize in buying and selling industrial equipment and which have a total of 75 employees. The three companies will be merged. Bilanaust intends to consider further investments in the UK.

ON OCTOBER 14, new owners bought the majority of shares in Icelandic Group. The new shareholders are TM Insurance, Sund investment company and Eimskip Shipping. That same day it was announced that CEO Þórólfur Árnason would be leaving the company after a little more than four months. Gunnlaugur S. Gunnlaugsson will take over as chairman and CEO. Ellert Vigfússon takes over as director of US/Asian operations.

Svava Johansen has bought all shares in the NTC fashion retail chain, which operates 14 stores in Iceland, from her former husband Bolli Kristinsson. Svava, who first joined the company 24 years ago, will be its sole director.

ON OCTOBER 24, over 50,000 women (a third of Iceland's female population) rallied in the Reykjavik city center to commemorate the 30th anniversary of the first Women's Day Off in Iceland.

ON OCTOBER 25, the University of Iceland was awarded the Equal Rights Award for the year 2005. The University's first female rector, Kristín Ingólfssdóttir, accepted the award on its behalf. At the same time, business magazine *Frjáls verslun* received a special Equal Rights Award for its prominent featuring of women in executive positions.

statistics

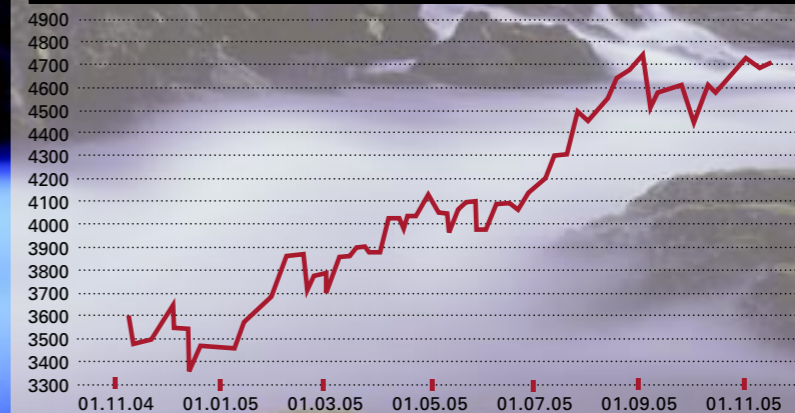
VITAL STATISTICS

Number of inhabitants Dec. 31, 2004	293,577	
GNP increase 2004	6.20%	
GNP	885 Billion ISK	14 Billion USD
GNP per capita	43,137 USD	
Total exports 2004	202 Billion ISK	3.3 Billion USD
Total imports 2004	240 Billion ISK	3.9 Billion USD
Balance of trade 2004	-38 Billion ISK	-0.6 Billion USD
Rise of stock index 12 months (to Nov 9 2005)	34.3%	
Stockmarket turnover 2004	721 Billion ISK	11.8 Billion USD
Bondmarket turnover 2004	1,496 Billion ISK	24.5 Billion USD
Wage increase 12 months (Oct-Sept.)	6.9%	
Inflation 12 months (May-April)	4.2%	
Unemployment Oct. 2005	1.8%	

CHANGES IN STOCK PRICE JUNE 1, 2005 - NOV. 9, 2005 (TOP AND BOTTOM)

Company	% change
Landsbanki Íslands hf.	39.0 %
Hampidjan hf. (Producer of fishing equipment)	28.4 %
Ossur hf.	26.7 %
Bakkavör Group hf.	25.8 %
Og fjarskipti hf. (Telecommunications company)	20.5 %
Atorka Group hf. (Investment)	-5.7 %
Kögun hf. (Software)	-8.7 %
SÍF hf.	-14.1 %
Icelandic Group hf.	-17.3 %
Medcare Flaga hf.	-29.1 %

ICELANDIC STOCK INDEX 12 MONTHS



RESULTS OF ELECTIONS TO ALTHINGI (PARLIAMENT OF ICELAND) 2003

Parties	% of vote	Seats in Althingi
Progressive Party (Framsóknarflokkur)	17.7	12
Independence Party (Sjálfstæðisflokkur)	33.7	22
Liberals (Frjálslyndi flokkurinn)	7.4	4
Social Democratic Union (Samfylking)	31.0	20
Left Green (Vinstri grænir)	8.8	5
Other parties	1.5	0

One member of Althingi has since left the Liberal party and joined the Independence Party.



Production on the Cutting Edge

Marel has been one of Iceland's most progressive high-tech companies for years.

Marel Group is one of Iceland's most progressive high-tech companies. Although founded in a university environment, it is now a leading company in the production of processing equipment aimed at increasing productivity in the food sector. The company started out producing machinery for fish processing and expanded into the meat and poultry industries in the 1990s, designing equipment and total solutions based on innovative concepts for its core business. Those two sectors have experienced enormous growth in recent years.

As of 2004, Marel Group has fifteen subsidiaries in Australia, Europe, Russia and North America, while its network of agents and distributors covers some 30 countries worldwide. In the first half of 2005, Marel Group had a total of 851 employees. Of those, 322 were employed in Iceland, and 529 were employed overseas by 14 companies in 10 countries. The

company's primary operations were in Iceland and at Carnitech a/s in Denmark.

Marel's headquarters in Gardabær, a municipality adjacent to Reykjavik, are impressive. The factory is extremely clean and efficient. Marel and its subsidiaries have long been on the cutting edge of the revolution in fish processing innovation, both on land and at sea. The company has designed and manufactured a range of equipment that includes weighing units, computer vision systems, intelligent portioning and slicing machines, smart flow lines, high-speed graders and packing and labeling systems with full traceability. That development shows no signs of slowing.

CEO Hördur Arnarson says that cooperation with the fish processing plants in Iceland has helped the company a great deal. "The domestic market is very important to us and we have always worked closely with Icelandic compa-

nies in order to develop machinery and techniques to help them achieve better results."

Yet even though the domestic market is important, the major growth is overseas. Hördur Arnarson continues: "When we look at Marel Group we see that 40% of turnover is in products for fish processing, about 20% in poultry and 40% in the meat industry. Our main growth areas are southern and eastern Europe, Australia and Asia. In the first six months of 2005 our turnover increased by 15% over last year. Sales for the first two quarters were EUR 64 million (USD 77 million) and net profits about EUR 4 million (USD 5 million).

He concludes: "The market calls for technical innovations so that productivity in the food industries can be improved. We try to answer that call as best we can." □



From Akureyri. Photo by Páll Stefánsson

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