



KAUPHÖLL ÍSLANDS
Iceland Stock Exchange

Where does the money come from?

Isländska KULTUR dager i Stockholm
20-22 September 2005

Thordur Fridjonsson, President and CEO
Iceland Stock Exchange





Contents

- Iceland 's economic place in the world
- Where does the money come from?
 - Economic development and prospects
 - Financial sector in the key role
 - The contribution of the stock market
 - Examples of international expansion of Icelandic companies
- A few quotes – the press
- Nothing magic – just hard work and business



Iceland is doing well in international comparisons

Examples of performance

	Ranking
Quality of life	2
Competitiveness	4
Creativity	7
Low corruption	4

Quotes:

United Nations Human Development Index, Human Development Report 2005

The IMD World Competitiveness Yearbook 2005, IMD Switzerland 2005

The Flight of the Creative Class: The Global Creativity Index, Professor Richard Florida 2005

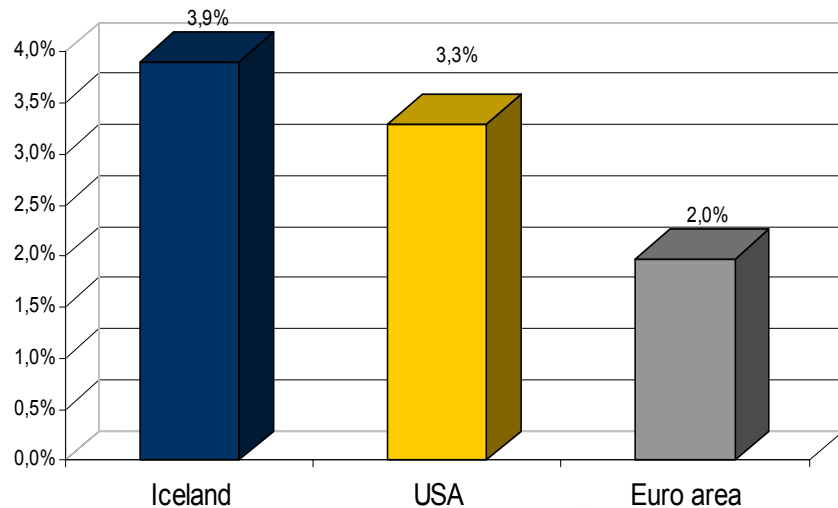
Transparency International: The International Corruption Perception Index 2002



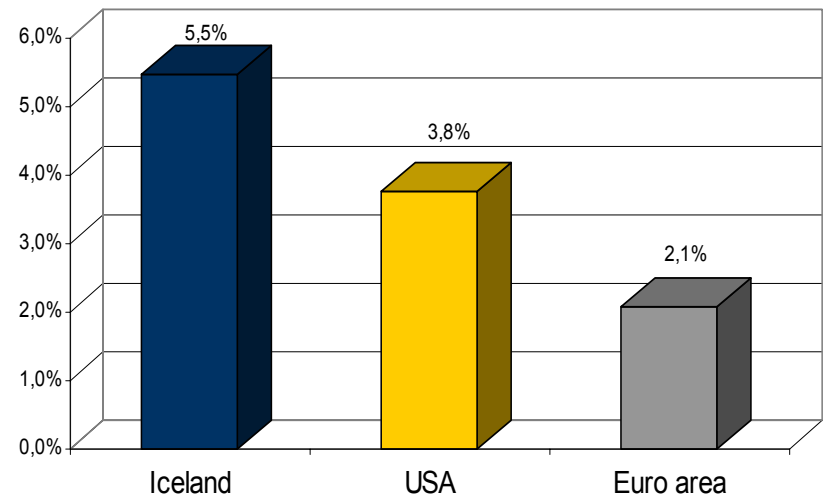
Economic growth

- average annual growth-

1996-2003

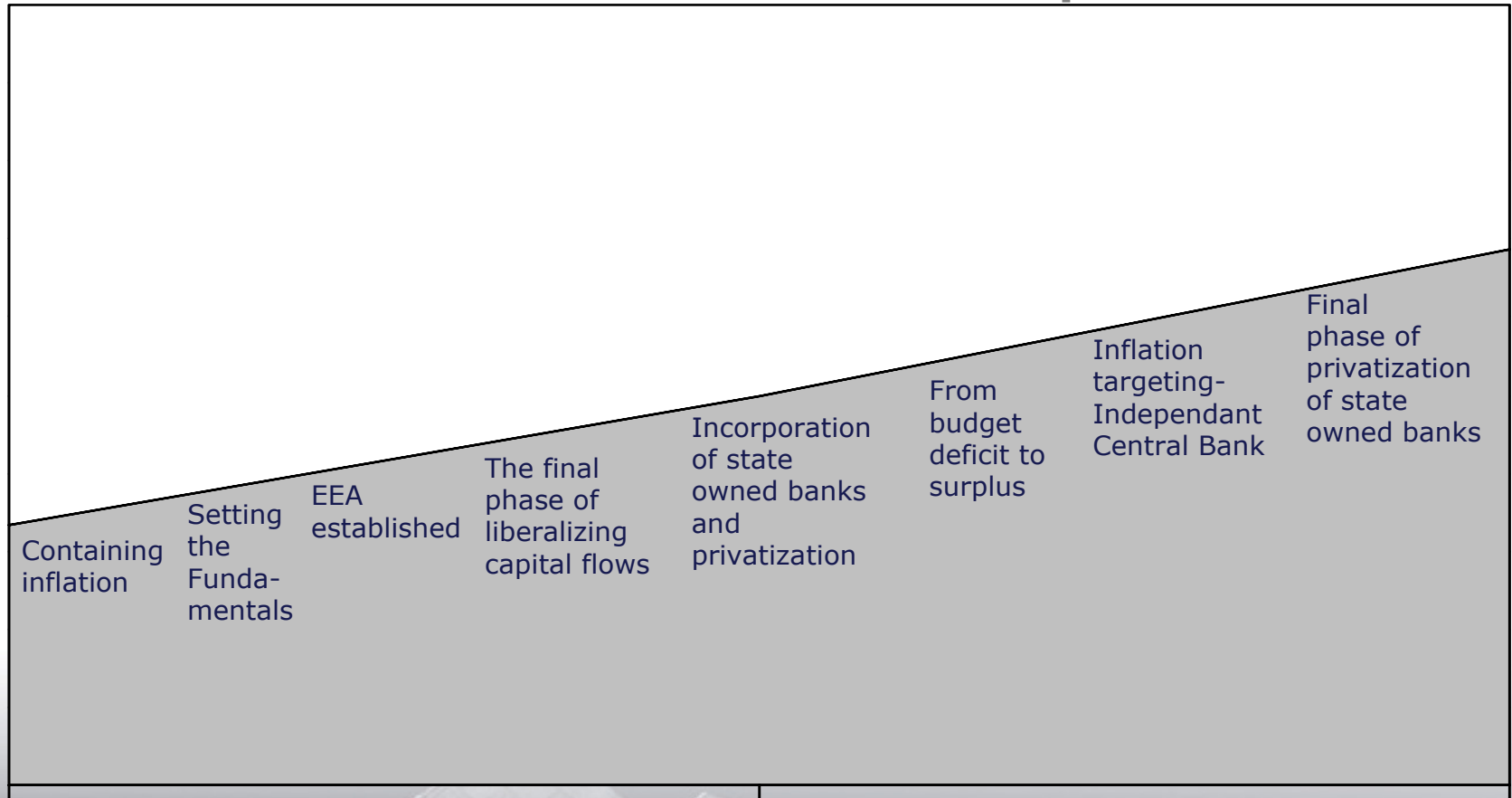


2004-2006





The phases of economic and financial development



1990

1995

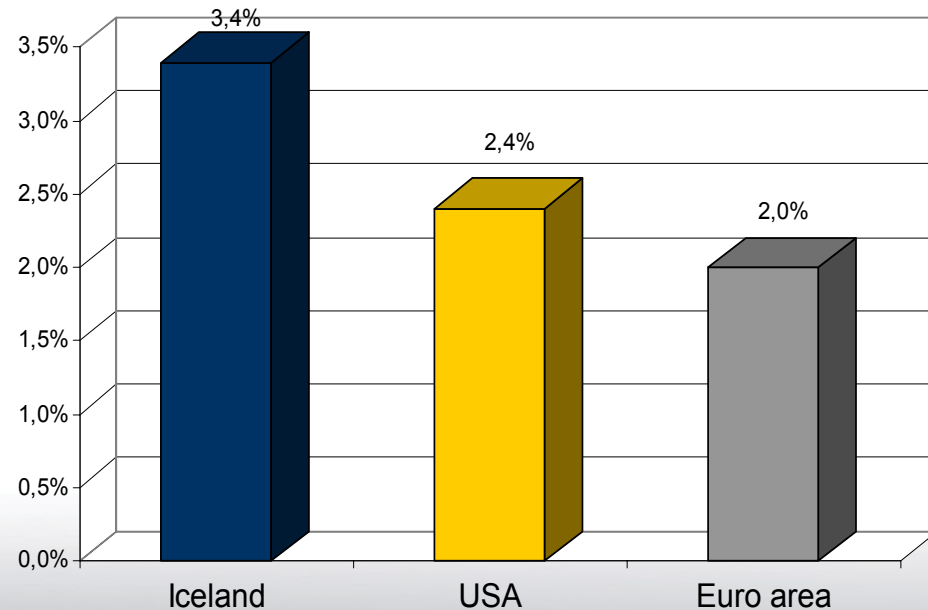
2003



Inflation 2005

Percentage changes from previous year

- Inflation in Iceland was contained in the early 90s
- There was a surge in inflation 2000/2001 due to overheated economy
- Inflationary pressure will prevail in 2005/2006 as the economy is quite stretched
- Most analysts expect inflation to stay in the 3-4% range in 2005/2006, but it may surge again late 2006 or 2007

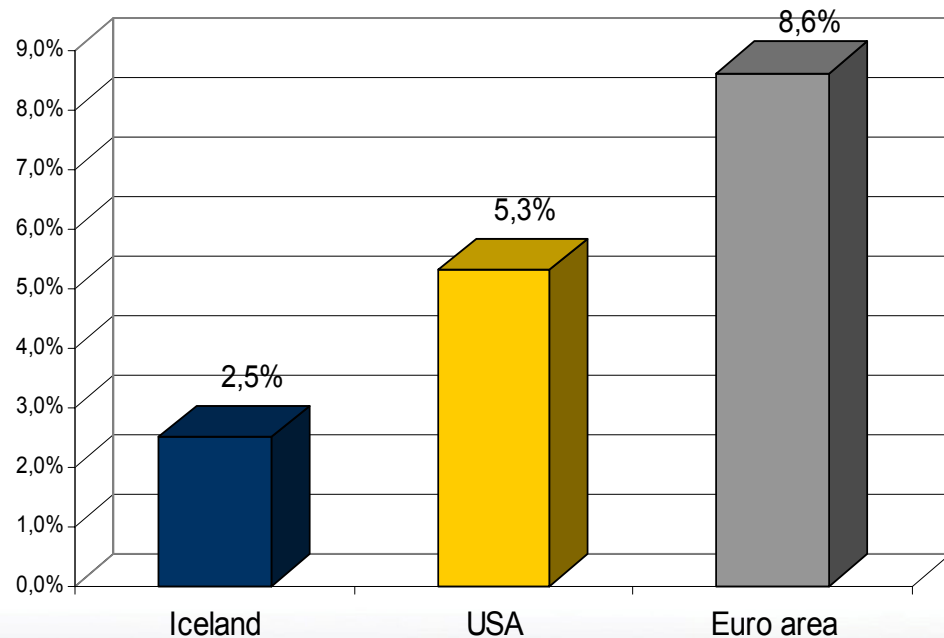




Unemployment 2005

Per cent of labour force

- In comparison to other countries, unemployment has never been a significant problem in Iceland
- Employment rates and labour force participation rates are very high - Icelanders love to work



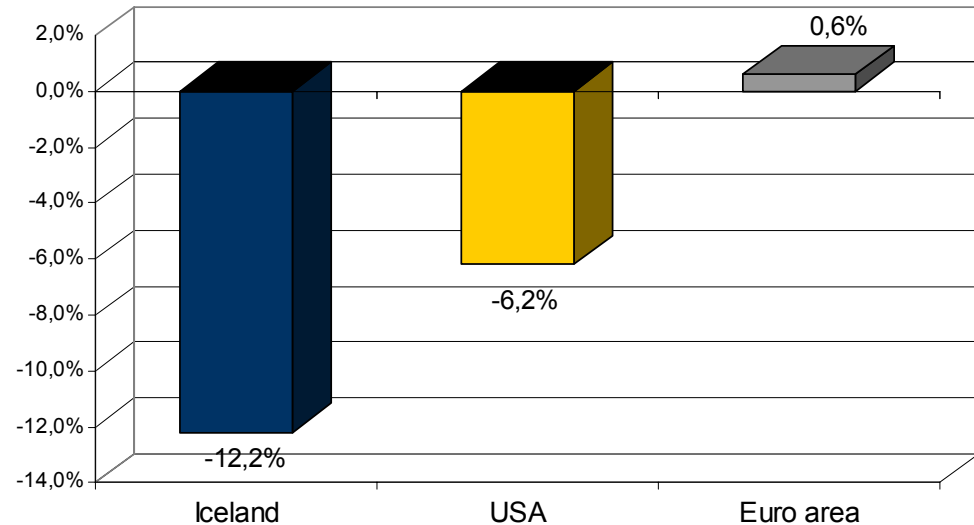


Current account deficit 2005

Per cent of GDP

Substantial current account deficit due to very high investment, in particular in aluminium projects and related power projects

The deficit is expected to decline when the construction period is over and aluminium production commences

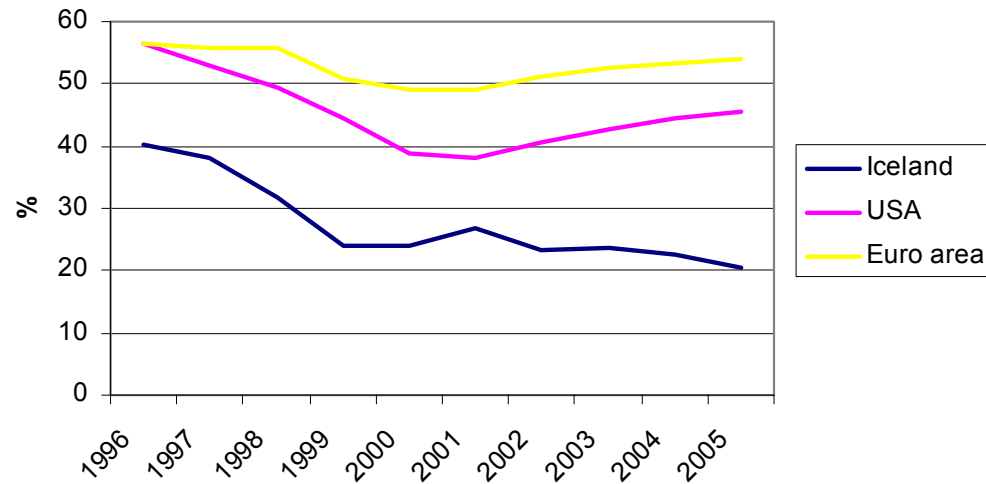




Government net financial liabilities

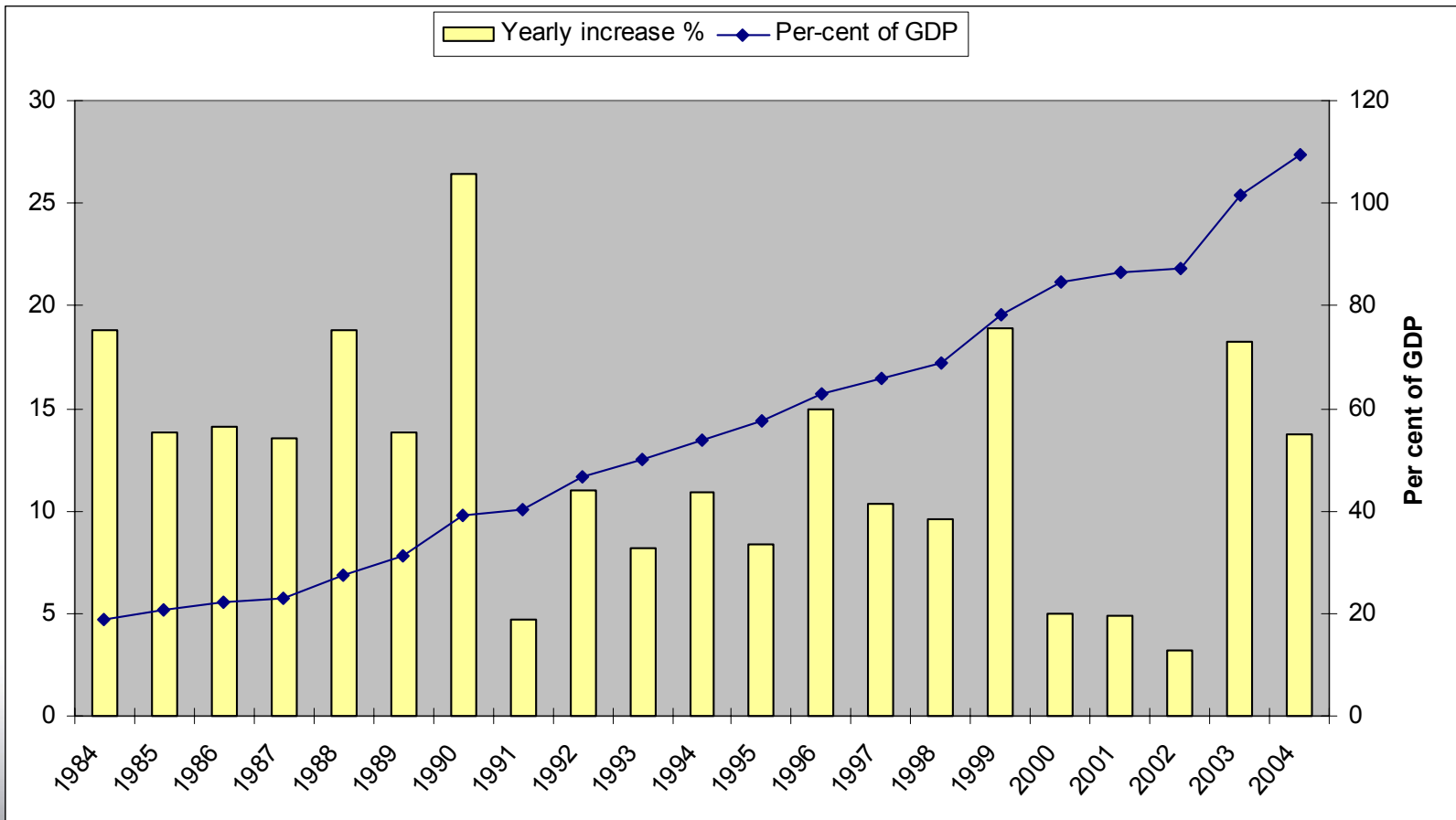
Per cent of GDP

- Solid fiscal position and declining government debt
- Net financial liabilities less than half the levels in the US and in the Euro area





Pension Fund Assets 1984-2004





Population over 65 in per cent of the working population

	US	Japan	Europe	Iceland
1950	12	8	12	8
1975	16	12	21	10
2005	18	30	25	13
2025	30	50	37	21
2050	33	70	50	27



Reasons behind the success

- The Economy has been streamlined during the last 10-15 years with focus on
 - Liberalisation
 - Privatisation
 - Entrepreneurship and flexibility
- ICEX has played an important role
 - Providing capital for expansion and restructuring

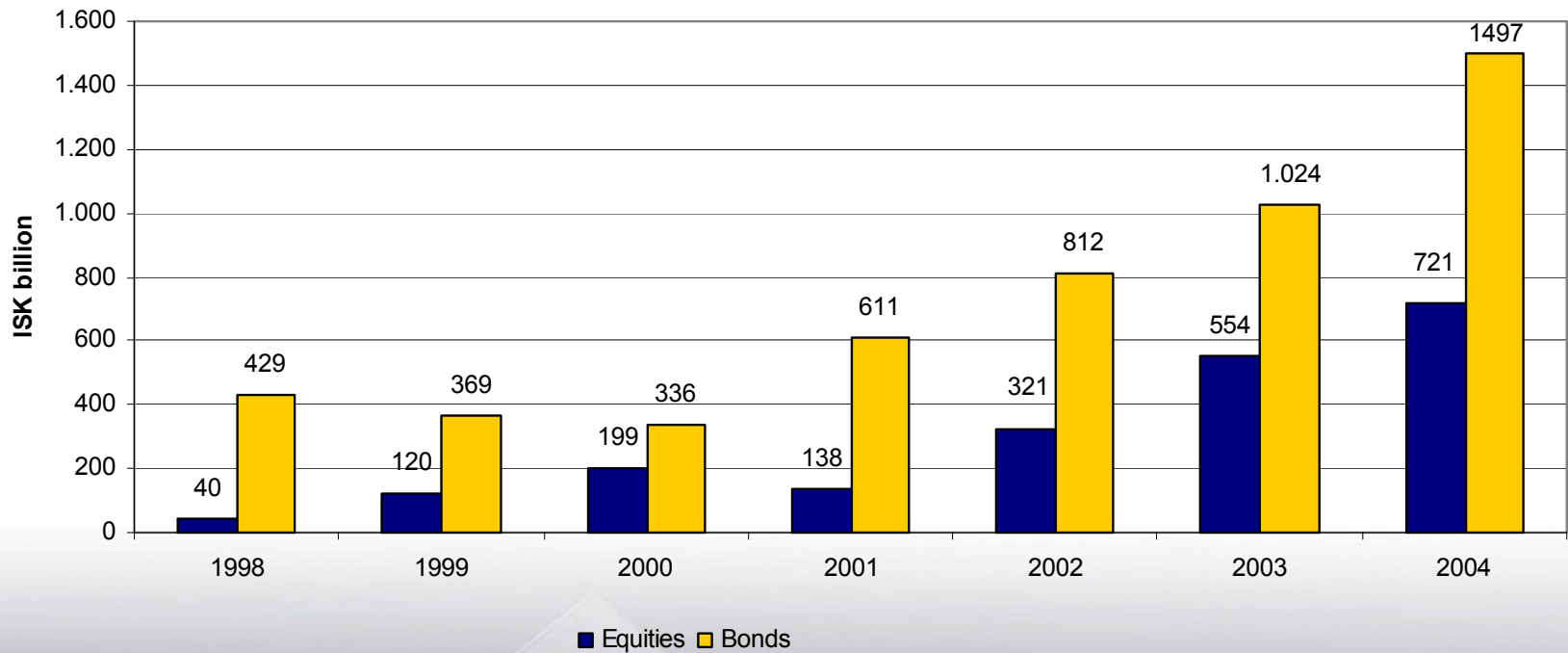


The future

- Closer co-operation with foreign exchanges
 - NOREX, OMX, LSE
- International exchange
 - Harmonise the legal and regulatory frame
 - International companies, foreign and domestic
- Exchange on the rise
 - Opportunities to advance with Icelandic companies abroad
- Good conditions for growth
 - The results depend upon how well we perform

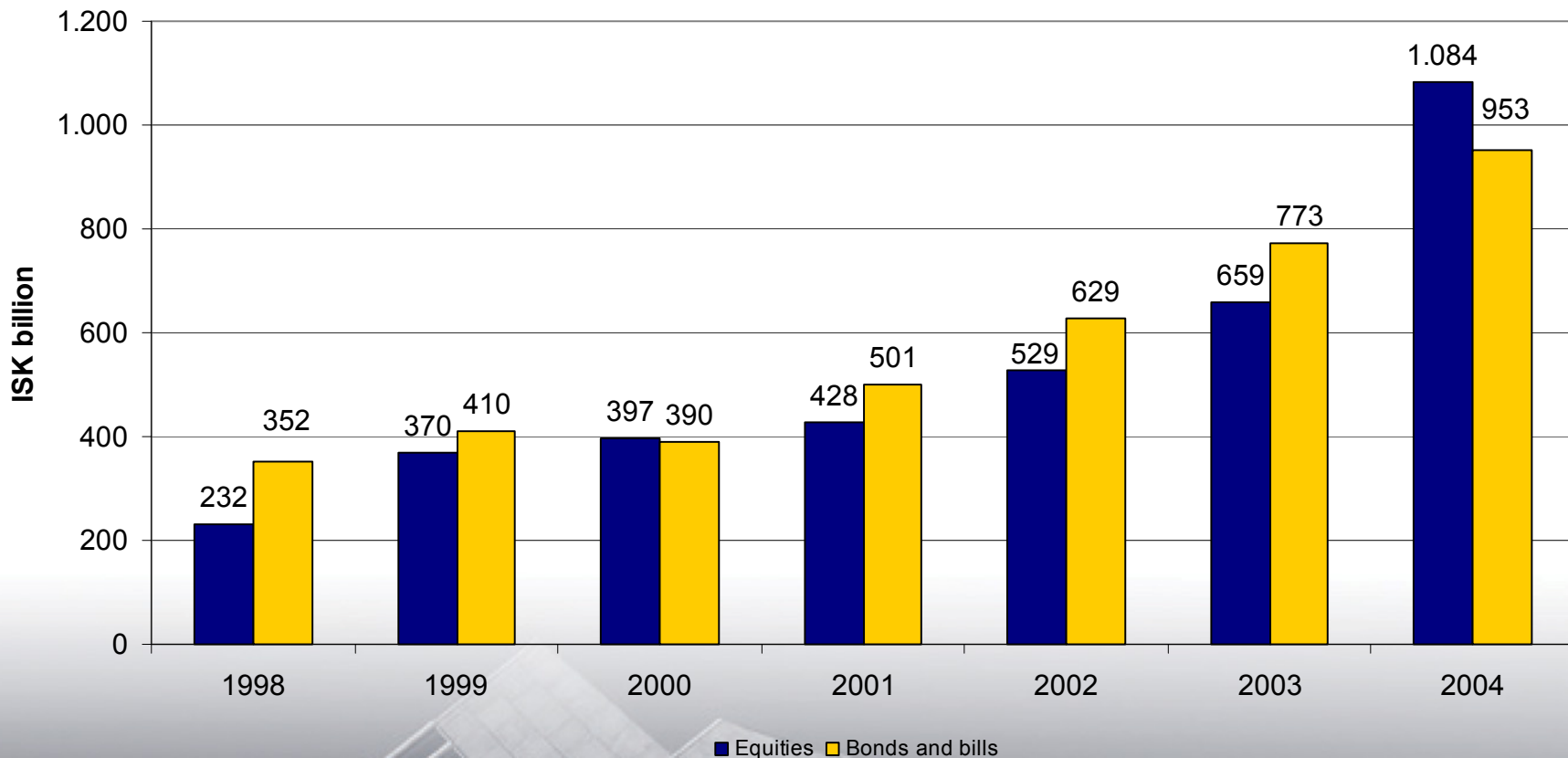


Equity Turnover 1998-2004



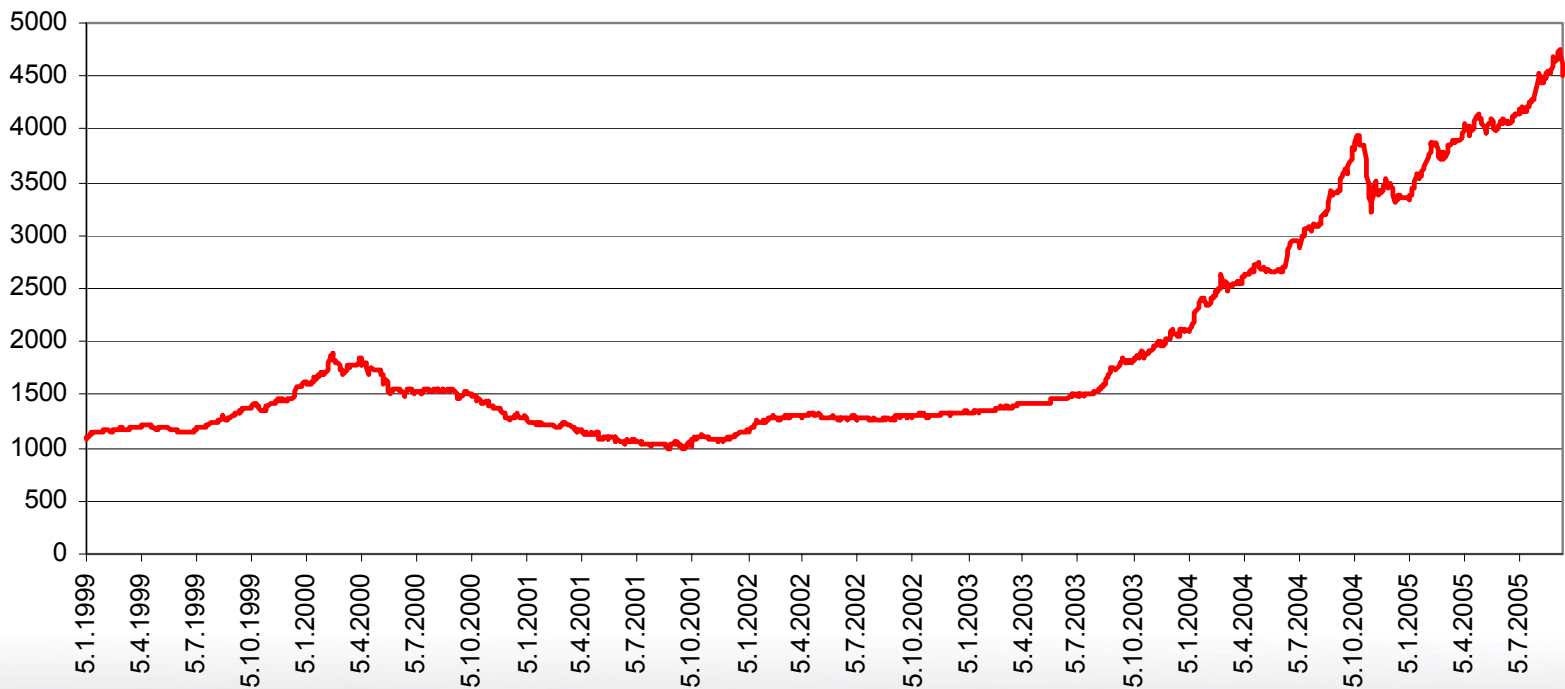


Market Value 1998-2004





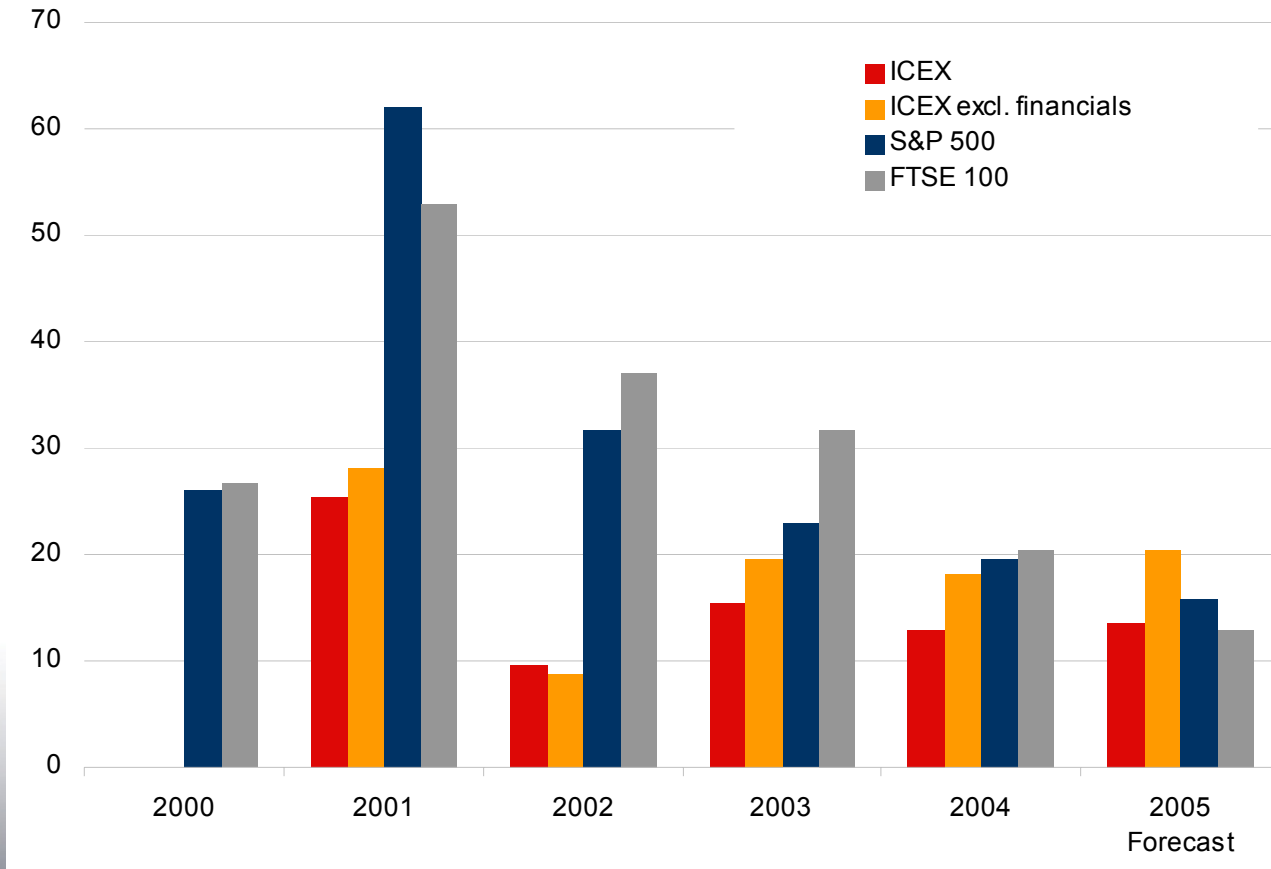
ICEX-15 1996 - 2005





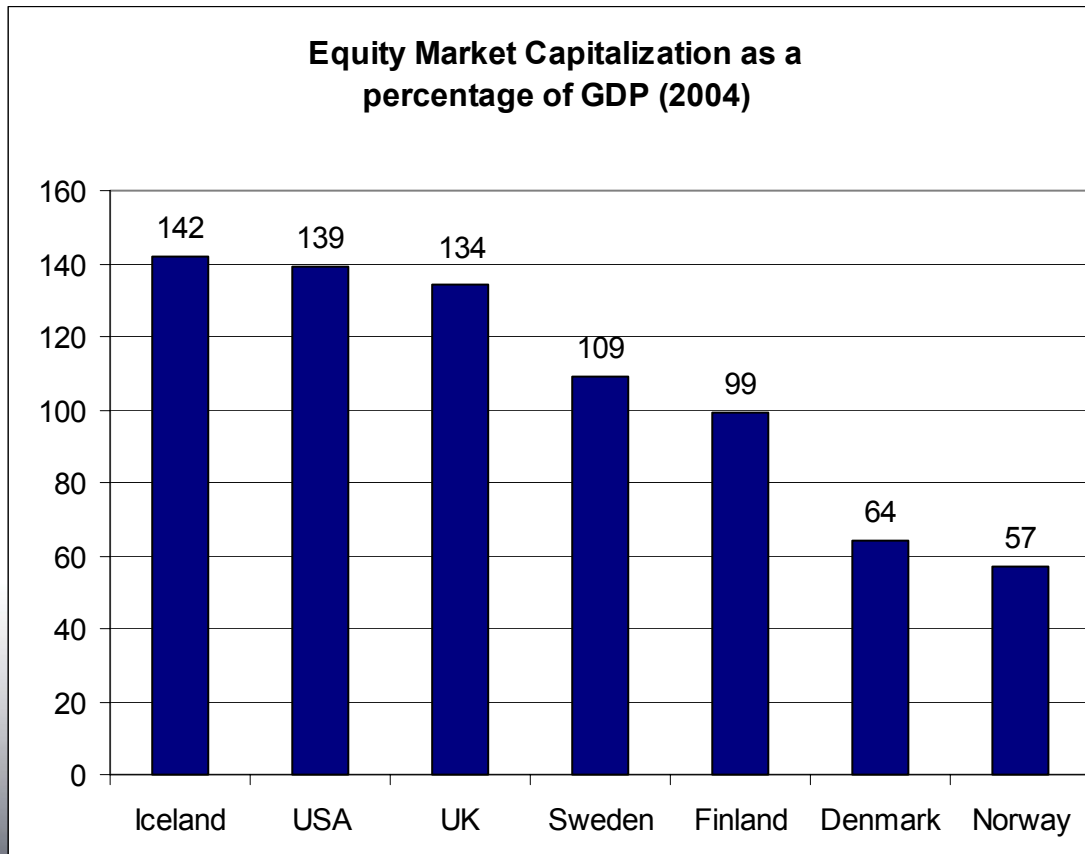
Valuation on the Icelandic equity market

P/E ratios



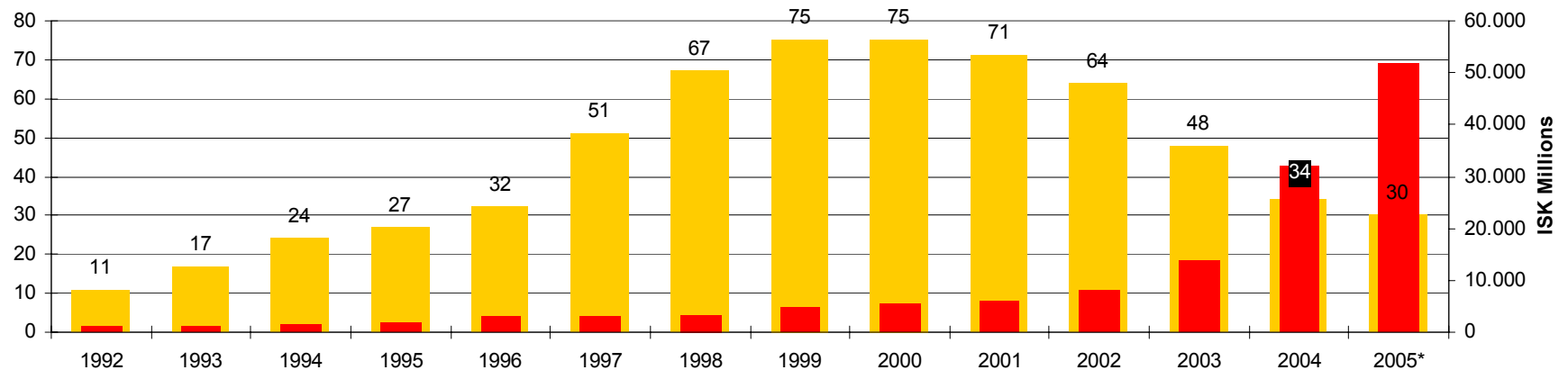


Equity Market Capitalization as a percentage of GDP 2004





Number of listed companies & average market value

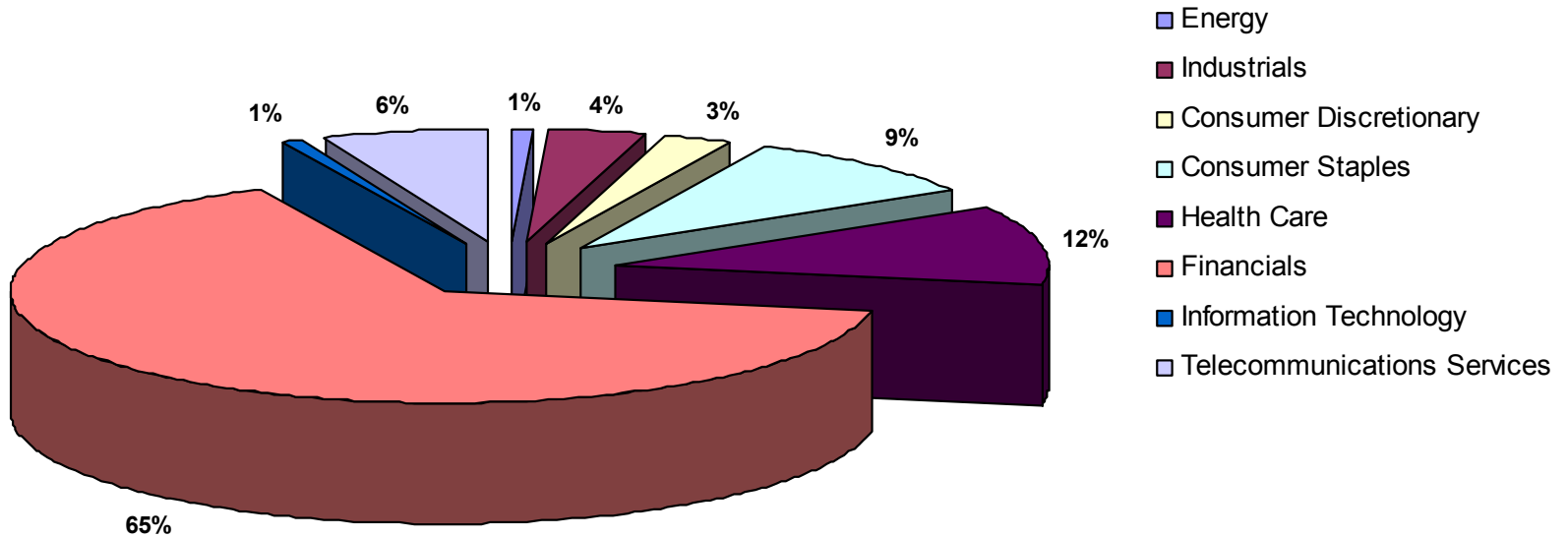


- Delistings mostly due to M&A activities
- Companies more liquid and larger than 2-3 years ago

* 31.8.2005



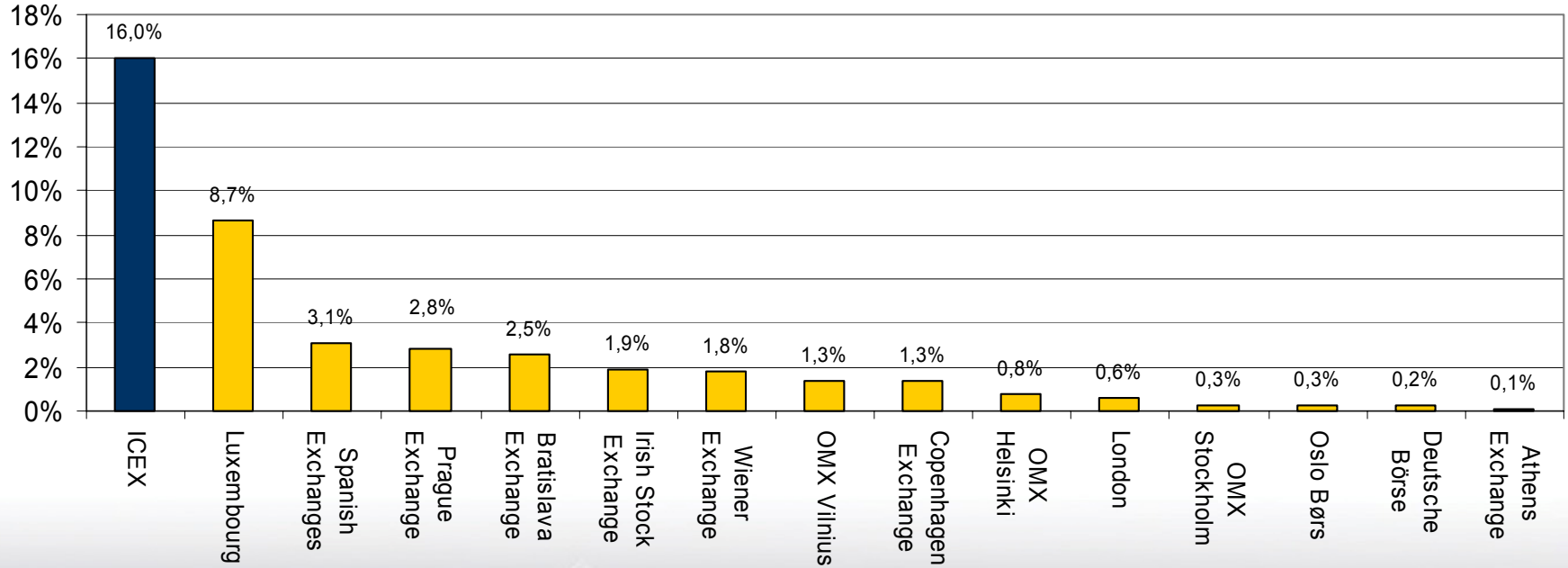
Market Cap by Sector





New capital 2004

% of market value





International investment

- **Actavis Group**
 - Balkan Pharma, FAKO, Zdravlje, Amide
- **Bakkavor Group**
 - Wine & Dine, Katsouris, Geest
- **Burdaras**
 - Carnegie, Skandia
- **FL GROUP**
 - easyJet
- **Icelandic Group**
 - Cavaghan & Gray Seafood, Seachill Ltd, Barogel S.A.
- **Islandsbanki**
 - Kreditbanken, BN Bank
- **Kaupthing Bank**
 - FIH, JP Nordiska, Aragon, Sofi, Norvestia, Singer & Friedlander
- **Landsbanki**
 - Heritable Bank, Theater & Greenwood Holdings plc., Kepler Equities
- **Marel**
 - Carnitech, TVM, CP Food Machinery
- **SIF**
 - Labeyrie Group, Lyons Seafoods Ltd.
- **Ossur**
 - Royce Medical Holdings Inc.



Where does the money come from? - Example 1

Bakkavör's acquisition of KFF is one of the most successful international acquisition by an Icelandic company. Between 2000-2004 EBITDA multiplied and Bakkavör's share price rose more than six fold.

Financing the acquisition

£101.8 m

31

Equity (30%)

Buyers: Katsouris family (20%) Icelandic investors (80%)

1,8

Seller's note (1.8%)

Lender: Katsouris family

20

Convertible bonds (19.6%)

Buyer: Kaupthing Bank

49

Senior loan (48%)

Lender: HBOS

RBS

HSBC



Where does the money come from? – Example 2

SIF Group's acquisition of Labeyrie is one of the largest Icelandic takeover outside the financial sector and has transformed the group into a significant European player in the food sector

Financing the acquisition

€548.8 m

237,2

Equity (50%)

Buyers:

Kaupthing Bank (30%) Management of Labeyrie (3%)
Major shareholders (44%) Share offering (23%)

36

Placement of bonds (7%)

Buyers: Icelandic investors

275

Senior loan (43%)

Lender: Kaupthing Bank HBOS



A few quotes - 1

- Bakkavor Group's acquisition of Geest:

“Det är relationer som skulle vara omöjliga i Sverige. Ett företag som tjänade 170 miljoner kronor skulle inte få låna 7,5 miljarder kronor för företagsaffärer”

Svenska Dagbladet 09/03/05

Fredrik Braconier



A few quotes - 2

- Islands ekonomi glödhet:

“Islands nya elit – affärstyrkorna – är unga, orädda, täta och mycket hungriga”

Svenska Dagbladet 23/04/05



A few quotes - 3

- On Kaupthing Bank:

“Det av en bank på en ö som har färre än 300 000 invånare. Är det guldfisk man drar upp nuförtiden i de isländska vattnen?”

Svenska Dagbladet 29/04/05

Fredrik Braconier



A few quotes - 4

- On Kaupthing Bank/JP Nordiska 2002:

“Vi har en seriös svensk aktiemarknad, det här är ingen fiskmarknad”

di.se 13/09/02

Lars Milberg



A few quotes - 5

- One not so nice:

“....bilden av unga hänsynslösa risktagare som låter få saker stå i vägen för dem”

Veckans Affärer 05/09/05

Birgitta Forsberg



A few quotes - 6

- On Icelandic Banking:

“The growth of Iceland’s banks – now centred on three main groups, profiled on the following pages – is one of the success stories of the past decade”

Euromoney, September 2005

Laurence Neville



HIGHEST MOVERS 2003-2004

World rank	Places moved	Bank	Country
635	322	First Gulf Bank	UAE
683	277	Andhra Bank	India
471	253	Landsbanki Islands	Iceland
211	248	Kaupthing Bunadarbanki	Iceland
617	242	Caja General de Ahorros de Granada	Spain
212	229	Türkiye Halk Bankasi	Turkey
420	222	Sparkasse Hannover	Germany
568	222	Denizbank	Turkey
525	220	Commercial Bank of Qatar	Qatar
720	201	Bank Internasional Indonesia	Indonesia
630	200	GE Money Bank	Czech Republic
732	197	Sparkasse Duisburg	Germany
441	194	Íslandsbanki	Iceland
591	189	Sparkasse Pforzheim Calw	Germany
663	183	Primer Banco del Istmo	Panama
386	174	E. Sun Bank	Taiwan
664	172	Umpqua Holdings Corporation	USA
681	169	Allahabad Bank	India
691	169	Syndicate Bank	India
832	167	Natsionalnyy Reserunnyy Bank	Russia
257	165	Sal Oppenheim Jr. & Cie. Komm. auf Aktien	Germany
436	165	El Monte - Caja de Ahorros de Huelva Et Sevilla	Spain
701	161	Bank Al-Jazira	Saudi Arabia
320	149	Banco Pastor	Spain
171	148	Volkswagen Bank	Germany
372	144	Hypo Alpe-Adria-Bank	Austria
415	144	HDFC Bank	India
816	138	Banco de la Nación	Peru
158	135	North Fork Bancorporation	USA
223	134	National Savings and Commercial Bank	Hungary

A few quotes - 7

The world is a curious place. An aficionado of **The Banker's** Top 1000 listing may have noticed that Iceland, a country of less than 300,000 people, produced three banks in the leading 500 world banks while India, a giant with 3000 times the population, produced only six banks in the leading 500.

The Banker, August 2005



A few quotes - 8



- On Kaupthing Bank:

“What do you call a bank that has doubled in size every year for the past eight years and that jumps 248 places in **The Banker’s** latest Top 1000 world banks listing to reach 211th place? Some call it a miracle.”

The Banker, August 2005



Concluding remarks

- The Icelandic economy has been performing very well for a number of years and growth prospects are excellent. Growth this year and the next is expected to be almost double the average rate for OECD countries.
- Inflationary pressure will persist and inflation might temporarily increase in late 2006 or 2007, following some depreciation of the exchange rate. Up until then it will probably stay in the 3-4 per cent range.
- The performance of the financial market has been remarkable and the Iceland Stock Exchange has played an important role in its achievements in recent years.
- Foreign investors are paying more and more attention to the stock market and foreign companies are in the process of getting listed.
- The market will continue to provide interesting opportunities.

