Where does the money come from?

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Iceland Stock Exchange
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  – Financial sector in the key role
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  – 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

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Quality of life</th>
<th>Competitiveness</th>
<th>Creativity</th>
<th>Low corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>4</td>
<td>7</td>
<td>4</td>
<td></td>
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</tbody>
</table>

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

- Iceland: 3.9%
- USA: 3.3%
- Euro area: 2.0%

2004-2006

- Iceland: 5.5%
- USA: 3.8%
- Euro area: 2.1%
The phases of economic and financial development

- Containing inflation
- Setting the Fundamentals
- EEA established
- The final phase of liberalizing capital flows
- Incorporation of state owned banks and privatization
- From budget deficit to surplus
- Inflation targeting - Independent Central Bank
- Final phase of privatization of state owned banks
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
• 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

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>Japan</th>
<th>Europe</th>
<th>Iceland</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>12</td>
<td>8</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>1975</td>
<td>16</td>
<td>12</td>
<td>21</td>
<td>10</td>
</tr>
<tr>
<td>2005</td>
<td>18</td>
<td>30</td>
<td>25</td>
<td>13</td>
</tr>
<tr>
<td>2025</td>
<td>30</td>
<td>50</td>
<td>37</td>
<td>21</td>
</tr>
<tr>
<td>2050</td>
<td>33</td>
<td>70</td>
<td>50</td>
<td>27</td>
</tr>
</tbody>
</table>
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

Equity Turnover (ISK billion):

- 1998: 40
- 1999: 120
- 2000: 199
- 2001: 336
- 2002: 321
- 2003: 554
- 2004: 721
- 2005: 1497

Equities and Bonds.
Market Value 1998-2004

![Bar chart showing market value for equities and bonds and bills from 1998 to 2004. The x-axis represents the years 1998 to 2004, and the y-axis represents the ISK billion. The chart displays a trend of increasing market value over the years, with the highest value in 2004 at 1,084 ISK billion for equities and 953 ISK billion for bonds and bills.](chart.png)
Valuation on the Icelandic equity market

P/E ratios

- ICEX
- ICEX excl. financials
- S&P 500
- FTSE 100

Forecast
Equity Market Capitalization as a percentage of GDP 2004

<table>
<thead>
<tr>
<th>Country</th>
<th>Capitalization as a percentage of GDP (2004)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iceland</td>
<td>142</td>
</tr>
<tr>
<td>USA</td>
<td>139</td>
</tr>
<tr>
<td>UK</td>
<td>134</td>
</tr>
<tr>
<td>Sweden</td>
<td>109</td>
</tr>
<tr>
<td>Finland</td>
<td>99</td>
</tr>
<tr>
<td>Denmark</td>
<td>64</td>
</tr>
<tr>
<td>Norway</td>
<td>57</td>
</tr>
</tbody>
</table>
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
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
  - Kredittbanken, BN Bank
- Kaupthing Bank
  - FIH, JP Nordiska, Aragon, Sofi, Norvestia, Singer & Friedlander
- Landsbanki
  - Heritable Bank, Theather & Greenwood Holdings plc., Kepler Equities
- Marel
  - Carnitech, TVM, CP Food Machinery
- SIF
  - Labeyrie Group, Lyons Seafoods Ltd.
- Ossur
  - Royce Medical Holdings Inc.
Listing Used for Growth
Market Cap of Kaupthing Bank, Actavis Group and Bakkavor Group, October 2000 - September 2005
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.

<table>
<thead>
<tr>
<th>Financing the acquisition</th>
<th>£101.8 m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity (30%)</td>
<td>31</td>
</tr>
<tr>
<td>31</td>
<td></td>
</tr>
<tr>
<td>Seller's note (1.8%)</td>
<td>1.8</td>
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<tr>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>Convertible bonds (19.6%)</td>
<td>20</td>
</tr>
<tr>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Senior loan (48%)</td>
<td>49</td>
</tr>
<tr>
<td>49</td>
<td></td>
</tr>
<tr>
<td>Lender: Katsouris family</td>
<td></td>
</tr>
<tr>
<td>Buyer: Kaupthing Bank</td>
<td></td>
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<tr>
<td>Lender: HBOS</td>
<td></td>
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<tr>
<td>RBS</td>
<td></td>
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<tr>
<td>HSBC</td>
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</tbody>
</table>
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*

<table>
<thead>
<tr>
<th>Financing the acquisition</th>
<th>€548.8 m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity (50%)</strong></td>
<td></td>
</tr>
<tr>
<td>Buyers:</td>
<td></td>
</tr>
<tr>
<td>Kaupthing Bank (30%)</td>
<td></td>
</tr>
<tr>
<td>Management of Labeyrie (3%)</td>
<td></td>
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<tr>
<td>Major shareholders (44%)</td>
<td></td>
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<tr>
<td>Share offering (23%)</td>
<td></td>
</tr>
<tr>
<td><strong>Placement of bonds (7%)</strong></td>
<td></td>
</tr>
<tr>
<td>Buyers: Icelandic investors</td>
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</tr>
<tr>
<td><strong>Senior loan (43%)</strong></td>
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<tr>
<td>Lender: Kaupthing Bank</td>
<td>HBOS</td>
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<td></td>
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</tbody>
</table>
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 – affärsstyrkorna – 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
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.