

Iceland's Economy

Resilient and well equipped to weather the storm

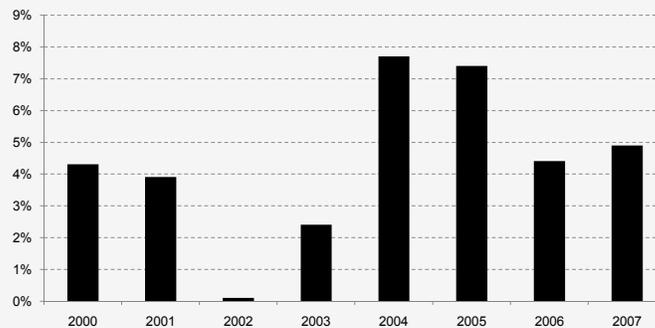
Short-term difficulties... favourable long-term outlook

Despite the fact that the recent financial crisis has hit Iceland hard, the economy is still strong and resilient. This can be attributed to strong economic fundamentals.

- High income
- Good education system
- Sophisticated health system
- Abundant natural resources
- Favourable demographics
- Fully funded pension system
- Flexible labour market
- Diverse exports and industries
- Competitive tax system
- Strong fiscal position
- Strong Infrastructure
- Political stability and International co-operation

High Income and Robust Growth

- Iceland's GDP Per Capita is the 6th highest among OECD countries.
- Average annual growth rate of GDP in the last 10 years has been 3.8%.
- GDP growth has been positive for 15 years in a row



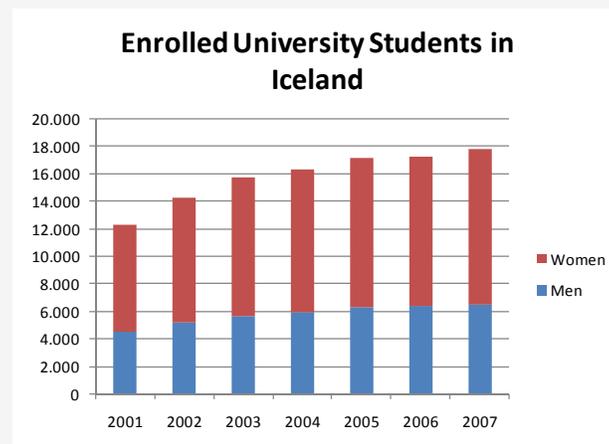
Good Education System

- The standard of education is high, and public education is compulsory between the ages of six and sixteen.
- A good command of English and the Nordic languages is widespread.
- Education is offered free of charge or at a nominal fee at all levels.
- In 2005, 30.6% of the employed labor force held a university degree.
- In 2004, the rate of enrolment by those completing secondary education was around 79%, which was the third highest among the OECD countries. By comparison, the average enrolment rate among the OECD countries was 53%. The ratio of pre-school enrolment is also one of the highest among OECD countries.

High Quality Education System

- Iceland's commitment to gender equality applies to all areas of social activity
 - Women have been in the majority at undergraduate level since 1985
 - Two-thirds of all tertiary level students are women
- Student Loan Scheme
 - More students likely to benefit from further study
 - Loan Scheme enhances the equitable and efficient tapping into the Nation's talent.
 - Valid for fields not available or not viable domestically which permits the development of a broader range of skills and abilities
- Roughly one out of every five university degrees held by Icelanders is obtained in other countries

High Quality Education System

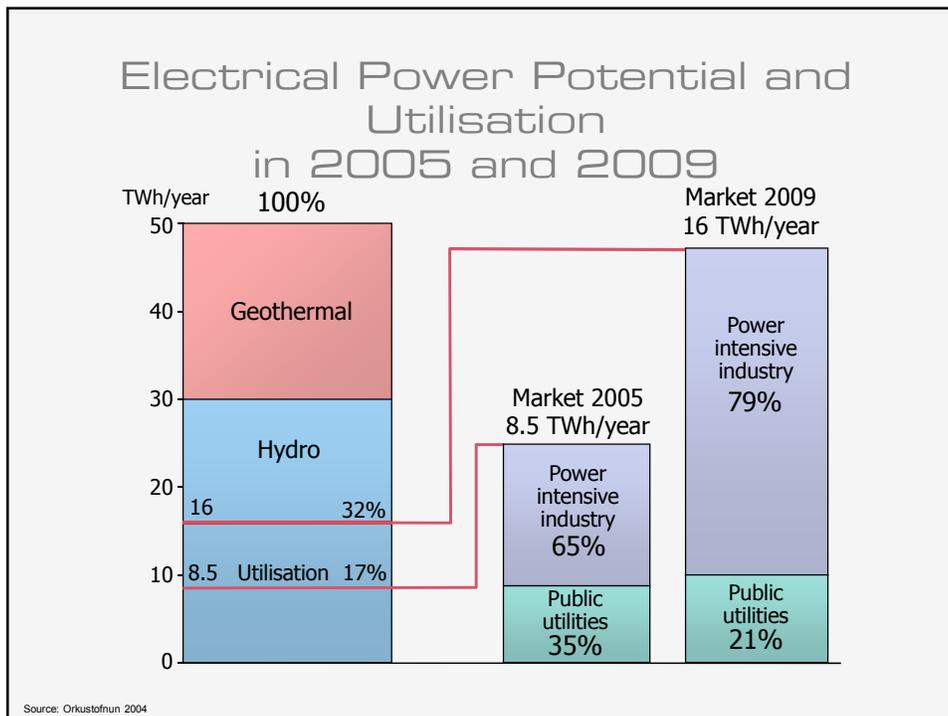
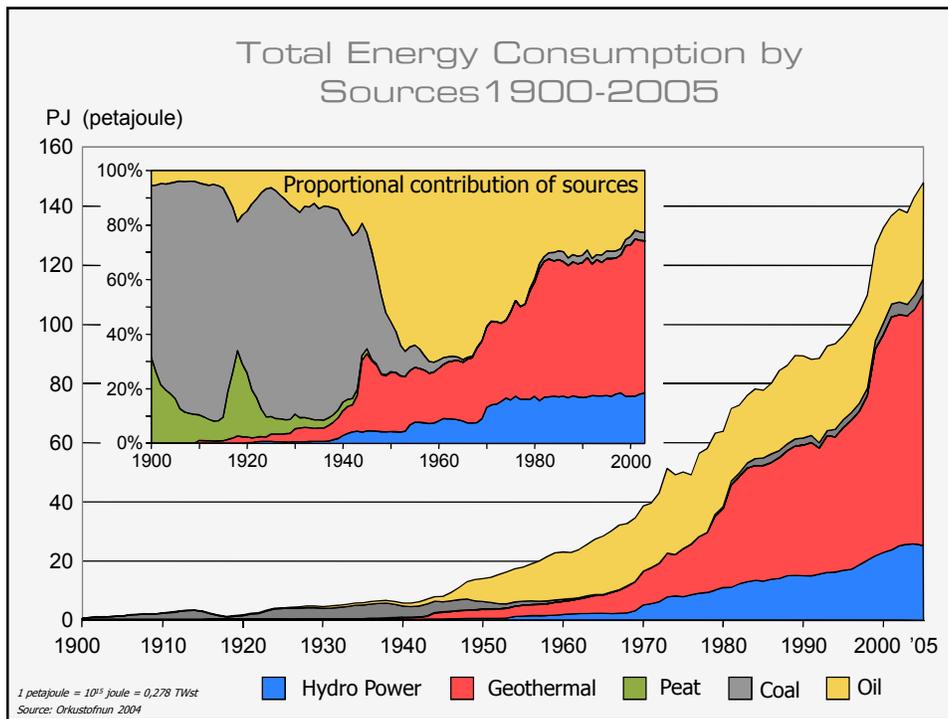


Sophisticated National Health Service

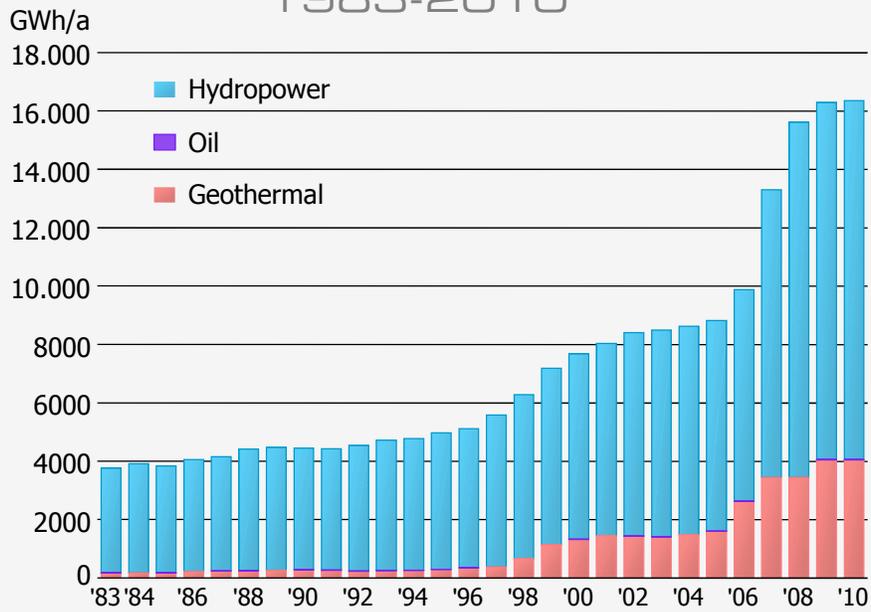
- Iceland is a modern welfare state that guarantees access for its citizens to universal health care.
- The Icelandic health care system is a tax-financed universal system for all persons who have had legal residence in Iceland for more than 6 months.
- Life expectancy is among the highest in the world
 - Life expectancy at birth is 81.2 years; OECD average is 78.9 years
- Lowest rate of infant mortality among OECD countries
 - 1.4 deaths per 1,000 live births in 2006 of an OECD average of 5.2
- Icelanders can expect to be healthy for about 90% of their lives.

Abundant Natural Resources

- Iceland has extensive hydro and geothermal resources
- Only one-third of Iceland's energy potential for generating electricity had been tapped in 2008
- In no other country is a greater proportion of total energy needs supplied from renewable and emission-free sources
- Electric power potential from hydro and geothermal sources is now estimated at 50 thousand GWh/year (50 TWh)
- Electricity production has quadrupled in last 15 years, will be 16 TWh in 2008, a 30% increase from 2007
- Iceland is a world leader in the use of geothermal energy for domestic and industrial purposes other than generating electricity
- Over 90% of all homes are heated by geothermal energy



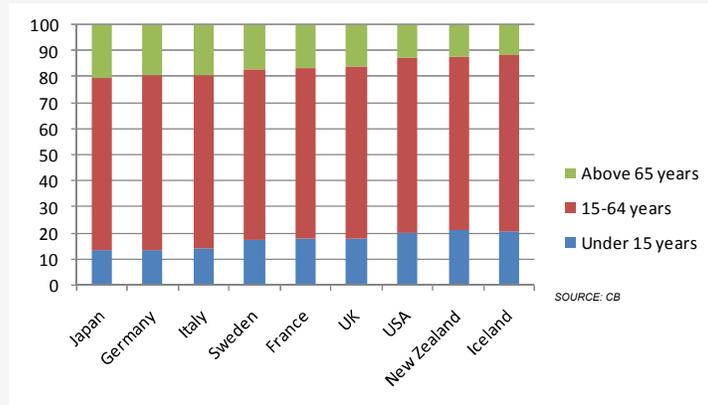
Electricity Production by Sources 1983-2010



Favourable Demographics

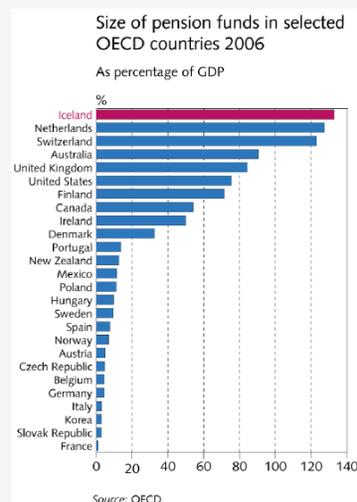
- Iceland's median age is among the lowest in developed countries, approx. 35 years.
- The share of the population aged over 65 is lower in Iceland than in most OECD countries.
- The Icelandic population is ageing at a slower pace than in most OECD countries.
- The fertility rate in Iceland is the highest among developed countries

Age Structure of the Icelandic Population

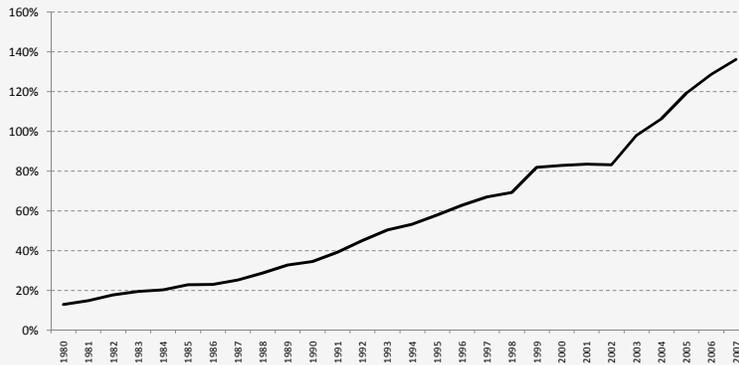


Strong Pension System

- Fully funded pension system.
- Pension fund assets 135% of GDP in 2007.
- Iceland is the OECD leader in that respect.
- Mandatory membership for all employees and self employed.
- Total return on pension fund assets has been strong.



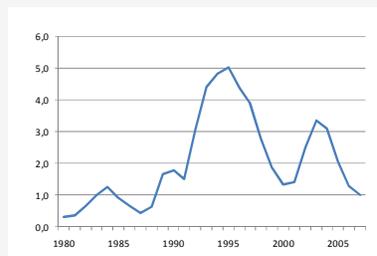
Strong Pension System Pension Funds Assets as % of GDP



Flexible Labor Market

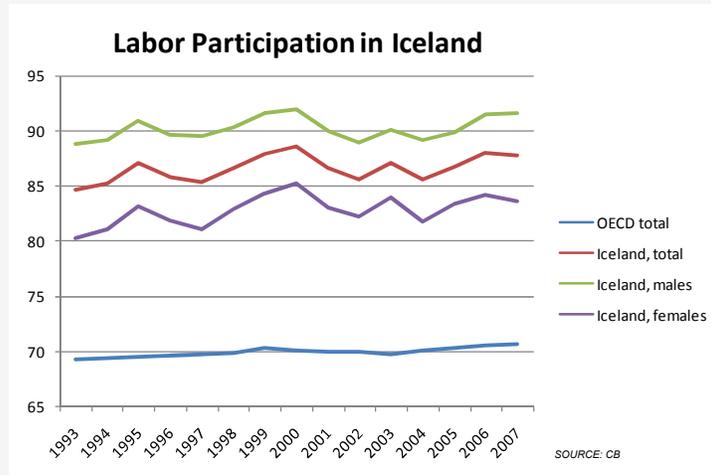
- Iceland's flexible labor market is one of the greatest strengths of the economy.
- Substantial and increasing labor mobility, flexible hours and variable participation rates serve to dampen the effects of external shocks.
- Over the last 10 years, labor market participation rate has consistently been above 80%, which is among the highest within OECD.
- Women account for approx. 46% of labor force.
- Labor participation among the young and elderly is particularly high.
- EEA membership facilitates movement of labor within the area.
- Foreign labor has relieved demand pressure in recent years

Historically low unemployment



SOURCE: Bureau of Labor Statistics

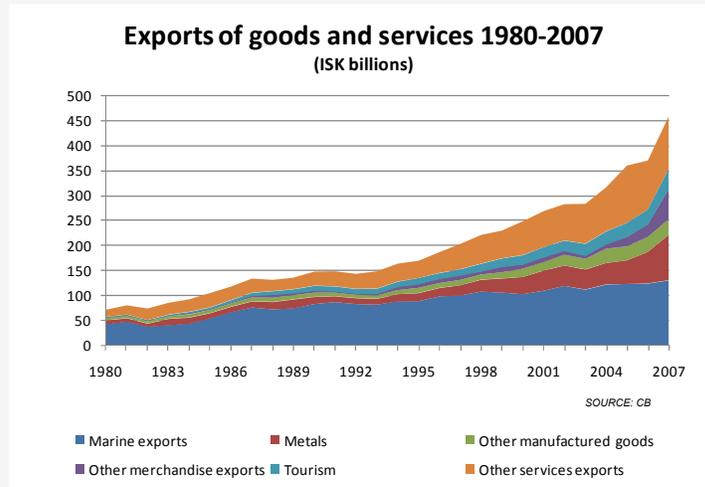
Flexible Labor Market



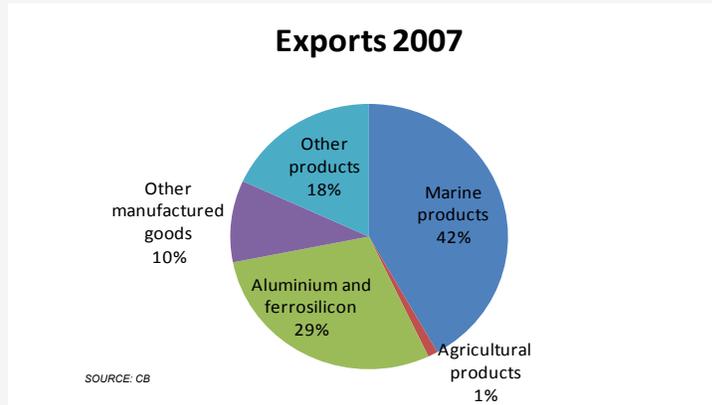
Diverse Export Industries

- Iceland is an open economy, with imports and exports of goods and services amounting to 46% and 35% of GDP, respectively.
- Exports of fish and marine products have historically been the mainstay of merchandise exports.
- Aluminum products have recently emerged as the largest single export product.
- Exports of services have also soared recently as the economy has become increasingly service-oriented. Services now account for approx. a third of total export revenues.

Diverse Export Industries

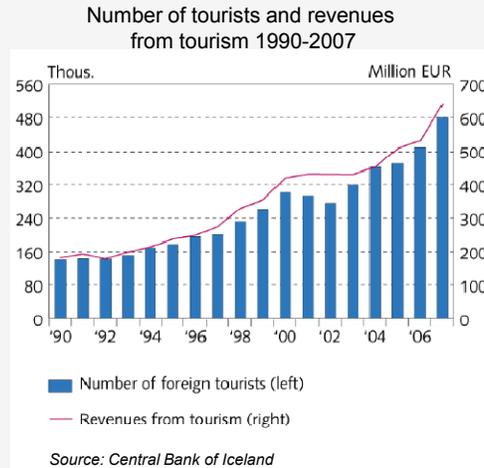


Diverse Export Industries



Thriving Tourism

- Tourism has been one of Iceland's fastest growing industries in recent years. The number of visitors from abroad is estimated at 480 thousand for the year 2007, compared to 310 thousand in 2000.
- Foreign exchange revenues generated by tourism in 2007 amounted to over €640 m.



A Clean Environment and Beautiful Landscapes

- Iceland is the second-largest island in Europe and the third largest in the Atlantic Ocean, with a land area of some 103 thousand square kilometers, a coastline of 4,970 km and a 200-nautical-mile exclusive economic zone.
- Iceland is endowed with abundant natural resources. These include fishing grounds and abundant hydroelectric and geothermal energy resources, which are nowhere nearly fully harnessed.
- With only 3 inhabitants per square kilometer, Iceland is one of the least densely populated countries in Europe.
- Iceland is among the least polluted developed countries worldwide.



The famous Geysir

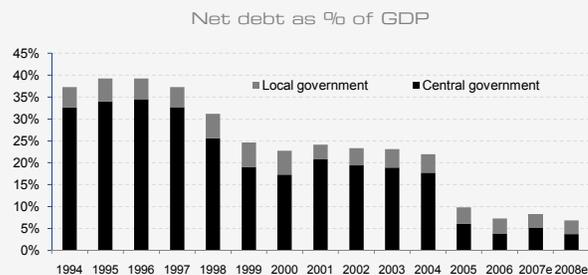
Competitive Tax System

- The Icelandic tax system is one of the major strengths of the economy.
- The tax system is very competitive and efficient.
- The tax rate is generally lower than the OECD average.
- Main features of the tax system in Iceland include:

	%
State income tax ¹	22.75
Municipal income tax ¹	11.2-13
State tax on financial income ²	10
Corporate income tax	15
Payroll taxes	5.34
Value-added tax	
General rate	24.50
Low rate ³	7.0
Property taxes ⁴	
Commercial and certain public property	1.60
Residential property	0.29

Solid Fiscal Position

- Iceland's fiscal balance has been well above the OECD average since the mid-1990s
- Economic prosperity has allowed public sector debt to decrease considerably since 1996
- The fiscal structure gives the Icelandic economy strength and breathing space to wather considerable turmoil in international markets



Strong Infrastructure

- The domestic transportation network consists of roads, air transportations and coastal shipping.
- Seven international airlines operate in Iceland, two of which offer direct passenger services to and from Iceland.
- Iceland has numerous harbors large enough to handle international ship traffic, which are accessible all year round.
- The telecommunications market in Iceland is characterized by one of the world's highest penetrations of broadband, internet and mobile phones.
- In 2007, Iceland had one of the highest mobile telephone penetrations in the world, with 104 subscribers per 100 inhabitants.

Political Stability and International Co-operation

- Iceland is a republic, has a written constitution and a parliamentary form of government.
- The central government has been a co-alition between two parties for the past 17 years.
- The current government has two-thirds majority in the parliament and is therefore in a strong position to make difficult decisions.
- Iceland is a member of the EEA-agreement which allows it to participate in the European internal market.
- Iceland was an early member of the UN and a founding member of the OECD (OEEC at the time), the World Bank, the IMF and NATO.

TABLE 1: MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS

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

Source: Central Bank of Iceland

The Economic Outlook

The current turmoil should only be temporary since the foundations of the Icelandic economy are very strong

- Growth is still robust
- Unemployment is near historic lows
- Major industries are still solid
- Diversified economy
- Strong pension funds and demographics
- Negligible government net debt
- Household net assets x5 disposable income