

## ICELAND

## All eyes are on Iceland

The

**Republic of Iceland's economy may have been hotting up in recent months, but fears that it will overheat are proving to be unfounded. All the signs show the island is in good economic shape, with adjustments being made to curb inflation. The country is currently ranked fourth for global competitiveness, according to the IMD World Competitive Yearbook 2006, and number one in Europe.**



Geir Haarde  
Prime Minister of Iceland

This modern, technologically savvy society of 300,000 people consumes more Coca-Cola than any other country and enjoys one of the highest standards of living in the world. In fact, Iceland is currently the world's fifth richest country, based on GDP per capita at purchasing power parity.

The North Atlantic country, which covers an area of 39,769 sq. miles, is surrounded by a continental shelf where the warm Gulf stream and the cold, nutrient-rich currents from the Arctic meet to provide some of the healthiest fishing waters in the world. The fishing industry is responsible for more than 60% of the country's exports—mostly in frozen foods—which has led it to be fiercely protective of its fishing stock which includes cod, haddock, redfish and herring.

Einar Gudfinnsson, Minister of Fisheries says: "Fishing, and fish processing is a highly diversified and very technical industry. We have reached a good equilibrium in the fisheries sector, which still accounts for a critical part of the Icelandic economy."

In the last decade, the economy at large has diversified tremendously, owing to large investments in heavy industry, such as aluminium smelting, deregulation and privatization in the financial sector. Prime Minister Geir Haarde, whose conservative Independence Party entered government in June this year, says: "The policy of diversification away from primary dependence on fisheries has been very successful and our economy now stands on a different foundation. Power-intensive industry is one part, the new knowledge-based economy is the other and biotechnology is the third. The tourism sector is currently our fastest-growing industry."

Recent growth has, however, been largely due to the financial sector boom. Árni Mathieson, Minister of Finance says: "The banks

are now incredibly strong and comparable to some of the largest and most successful in the world." In fact, according to the Invest in Iceland Agency, the profit of the main banks was collectively U.S.\$1.8 billion last year, with Icelandic finance corporations exceeding the fishing industry for the first time ever, when measured as a ratio of GDP.

The World Investment Report 2005 ranked Iceland number 14 in terms of Foreign Direct Investment potential. Its corporate tax, at 18%, is among the lowest in Europe. Thordur Hilmarrsson, managing director at Invest in Iceland says: "We have a small working population, so we cannot attract the huge international companies, which are labor-intensive. However, many other industries can benefit. We are looking for knowledge-based industries, such as software, hi-tech, biotechnology and finance, as well as service-based industries. We currently have 430 hi-tech companies employing 5,000 people and the number is growing."

Moreover, despite its size, Iceland is very well connected, with direct flights to six U.S. cities and 20 European locations on a daily basis. Icelandair, the country's flagship carrier, offers a stopover deal of up to seven nights, with no extra travel costs or transfer fees. The country's strategic location is a boon for businesses—it offers a natural bridge between the U.S. and Europe markets. And, as Hilmarrsson notes: "The international airport has lots of space, offering interesting opportunities for airport-related services."

Corporation tax was also lowered to incentivize Icelandic businesses to stay and has proved to be a successful move. A new wave of local entrepreneurs, many of them under 40, are currently



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bagging Iceland's top CEO posts and making a significant impression on the world map. Thorgerdur Katrín Gunnarsdóttir, Minister of Education, Science and Culture, says: "We have a very well-educated population. In the past, many Icelandic people left the country but they are now coming back because there are so many strong industries competing for the best people."

Helping along this entrepreneurial culture is Reykjavik University. When it was opened by the Chamber of Commerce in 1998, the private university had two main disciplines—business and computer science—and only 300 students. After merging with the state technical university, however, the numbers swelled to 2,800. It is now looking forward to opening a new state-of-the-art campus facility in 2009.

University president Gudfinna Bjarnadóttir says: "This is a 21st century university with no ivory towers or dinosaur mentality. Being certified by the Chamber of Commerce means we embrace business conduct and that gives us a sense of direction. Of course we will be good at research and teaching, but unlike other



Einar K. Gudfinnsson  
Minister of Fisheries

universities, we will also create synergies within industry."

**Tourism takes off**

With lower airfares and sophisticated PR campaigns from the Icelandic Tourist Board, people are now beginning to wake up to the delights of this snowy wonderland and its unique natural assets.

Visitor numbers have been growing at an average of 7.2% in the last 10 years, and the sector is now responsible for 12.7% of the GDP, second only to fishing in terms of foreign reserve receipts. Aside from the Nordic countries, most tourists come from the U.K., the U.S. and Germany. The country is also an important stopping point for cruise ships.

As well as continuing to market natural pursuits and active tourism, the Tourist Board is now promoting the country's capital, Reykjavik, as a winter city-break destination to encourage year-round tourism. Ingibjörg Pálmadóttir, who runs the boutique 101 Hotel says: "People used to come here just for the nature, but now Reykjavik has become a hip destination in its own right."

The 38-roomed 101 Hotel boasts a comfortable and modern atmosphere in distinctive minimalist black and white surroundings. Pálmadóttir says: "After graduating from the Parsons School of Design in New York, I traveled a lot and somewhere along the road, I found I liked to stay in nice hotels that make one feel at home. That was where the idea sprang from." Pálmadóttir has been careful to showcase Icelandic art, some of which is from her own private



Thorgerdur K. Gunnarsdóttir  
Minister of Education

**"People used to come here just for the nature, but now Reykjavik has become a hip destination in its own right."**

collection. Just around the corner is the 101 Gallery, which opened two years ago.

The 101 Hotel, a member of Design Hotels, is within easy reach of the Icelandic Opera House, government buildings, the business district, cafes and shops. Pálmadóttir says: "We also have one of the trendiest restaurants in town. Our menu features a combination of modern Icelandic and international cuisine with Indian influences."

Ten minutes away from Reykjavik's center lies Smáralind Shopping Center, Iceland's largest shopping mall. Opened in 2001, the mall and entertainment center has recorded growth of between 17 and 20%. Pálmi Kristinsson, Smáralind's general manager says:

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"We did a lot of research and learned very quickly that Iceland is an interesting test bed, especially for British retailers. You can go into this market and, within a month or two, will know whether you will be successful internationally. It is very important for the bigger retailers going into the middle European market such as Germany and France and so on, because of the large investment involved."

He adds: "We provide tourists with all the brand names they know, such as Zara, Hugo Boss, Benetton and Jack & Jones. Shopping will become an important part of the tourism industry. Last year, this mall had over 4.5 million visitors. While the country's growth will come down, our growth will reach about 10% in the next year. We have a large capacity here and are currently developing a new office building on the north side, which will have 15 levels of office space and two levels of retail, plus parking."

Iceland's natural attractions continue to bring in adventurers, eco-tourists and those wanting something different. Its glacial landscape provides excellent scope for once-in-a-lifetime tours and activities. Magnús Oddsson, director general of the Icelandic Tourist Board says: "The new generation of tourists want to be active on their holidays and we are able to provide them with options that combine the unique nature of Iceland with certain activities. You can go sailing, river-rafting, horse riding, skiing and whale watching."

Local tour operators are completely geared up to offer a quality product. Elding Whale Watching, for example, offers visitors trips on custom-designed motor cruisers from Reykjavík Harbor. Vignir Sigursveinsson, operating manager, says: "Our trips take passengers into the very heart of the whales' habitat, where it is possible to see minke whales, white-beaked dolphins, harbor porpoises and the popular humpback. Our double-decked boats' viewing areas boast a fantastic 360-degree panoramic view."



### Iceland's unique landscape has many contrasting features

More Icelandic adventures can be experienced aboard Eagle Air Iceland, a charter airline company with more than 35 years' experience in the fields of transport, tourism and emergency response. The company's "Ice and Fire—Glaciers and Volcanoes" is, says Hördur Gudmundsson, president and CEO/chief pilot, the most popular: "A never-to-be-forgotten trip that shows the sharply contrasting faces of Iceland's natural features."

Back in Reykjavík, the swish Hotel Plaza offers visitors a comfortable, quality-focused base from which to explore all these activities, with the added bonus of an excursion booking service. Its 104-rooms are newly renovated and provide broadband Internet connectivity, interactive TV, bath robes and a fully-stocked mini-

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### Iceland's bright young things

While local operators are making important strides at home, a new generation of entrepreneurs is sweeping into the global world of business. Actavis, for example, is one of the five largest generic pharmaceuticals companies in the world today. Since 1999, the Group has grown so that it now employs approximately 10,000 people across more than 30 countries including the U.S., Germany, Russia, India and Turkey. It also boasts one of the broadest portfolios in the generics sector, with 650 products on the market and 300 more in the pipeline.

With 2006 revenues now expected to top €1.4 billion (U.S.\$2.8bn), Actavis is one of Iceland's most successful and admired companies. It has been a remarkable journey for a business that only seven years ago had modest headquarters on the outskirts of Reykjavik and faced an uncertain future given the limited growth prospects in the Icelandic market. The turnaround has been driven by the young, entrepreneurial and highly-talented chief executive Robert Wessman (pictured left), who arrived at the helm having built himself a reputation in Europe for being a fast-thinking and ambitious businessman. Unlike many of his peers, Wessman realized that the generics industry was about to undergo a period of rapid consolidation and if Actavis was to grow rather than be acquired, he needed to look for opportunities to expand the business abroad.

Wessman initiated Actavis' expansion strategy by purchasing assets in Central and Eastern Europe where he knew he could achieve significant margin improvement by moving some of the Group's manufacturing and take advantage of a substantially lower cost environment. The results were so strong that today Actavis has manufacturing sites in 10 countries supplying its markets worldwide. From these beginnings, Wessman began to build the business so that over the last seven years the Group has made over 20

**"We knew it was important to establish an important presence in all the key markets, especially within the U.S. Now we can call ourselves a truly global player."**

acquisitions, the most recent of which has been the purchase of Amide Pharmaceuticals and the human generics division of Alpharma, both in the U.S. "We knew it was crucial to establish an important presence in all the key markets, and especially the U.S. Now that we have nearly a third of Group sales coming from this market, we can call ourselves a truly global player," says Wessman.

Wessman also understood that the key to being a successful generics business was the ability to react quickly. By being among the first to market as soon as a drug loses its patent protection, Wessman realized Actavis could reap the rewards of limited competition and gain pricing leverage. Over the years, Actavis has built a strong sales network across the world and made fast and efficient execution a cornerstone in its strategy. "Our sales have grown from €57 million (U.S.\$72m) to €1.4 billion (U.S.\$1.8bn) today and our market capitalization has grown from €30 million (U.S.\$38m) to €2.4 billion (U.S.\$3bn). We have maintained our profitability while achieving strong organic growth, making improvements to our infrastructure and investing in our employees.



**Magnús Jónsson**  
CEO, Atorka

A business will only survive in this industry if it has deep rooted operations throughout Europe and the U.S."

With this, Wessman has created a business that is ready for the next wave of consolidation and competition. He predicts that the current trend of consolidation will continue until there are only a small number of very large companies operating in this marketplace—and he is confident that Actavis will be one of them.



**Ingibjörg Pálmadóttir**  
Designer & Owner  
101 Hotel

Also flying high is investment company FL Group, parent company of Icelandair and 13 other travel-related subsidiaries. Last year was the company's most successful ever, with a pre-tax profit recorded of U.S.\$286 million.

CEO Hannes Smárason, with the group since 2004 and one of the business world's "most valuable professionals", charts the continued rise of FL Group: "It began as Flugleidir, a holding company for Loftleidir and Flugfélag Islands in 1973. That was the official name until 2005, when it became investment company FL Group. It is probably best known for its subsidiary Icelandair."

Since taking control, Smárason has overseen the acquisition of Danish low-cost airline Sterling Airways, and the sale of FL Group's 16.18% stake in British "no-frills" carrier easyJet, which returned a profit of €140 million (U.S.\$178m). Plans are also under way to float Icelandair on the Iceland Stock Exchange this year. Smárason



**Smáralind Shopping Center in Reykjavík**

explains: "Icelandair is a customer-oriented travel company focusing on growth and profitability by providing high-value products with Iceland as a cornerstone." The carrier offers the shortest flight path from the east coast of North America to Northern Europe—only five hours—and flies to seven U.S. destinations, including San Francisco, Washington and New York, as well as 15 European cities. It has around 2,500 staff in 10 countries.

Smárason says: "The last few years have been a period of great change in the operating environment of airlines in both the U.S. and Europe. With the growth in low-cost airlines, fares will continue to fall and alter the landscape of the international flight markets.



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"That's why we are constantly making efforts to restructure and reduce costs. Our goals this year are to increase our Internet sales, simplify the accounting process, reduce fuel consumption and continue to increase the productivity of employees."

The group increased its ownership of marketable securities at the beginning of 2005 by shifting its focus to international markets. At the end of March, the company's shareholdings were ISK153 billion (U.S.\$2.2 bn), a third of which were in foreign shares. Its largest investments were in Bank Glitner ISK41.5 billion (U.S.\$0.58bn) KB Bank ISK34.3 billion (U.S.\$0.48bn) and easyJet low-cost airline ISK29.2 billion (U.S.\$0.41bn).

Smáráson says: "The first quarter results of 2006 were very strong. I am pleased to see the investment operation at ISK10 billion (U.S.\$0.14bn) in pre-tax profits, despite the recent turbulence in Iceland's financial market. Icelandair's seasonal loss is much lower than the year before. The Sterling turnaround is ahead of schedule and we are pleased with the progress they are making, bearing in mind the seasonality of the business."

The MIT-educated high-flyer shows no sign of slowing down. He says: "Aviation only accounts for half of our balance sheets. As well as the banks, we have been investing in several companies in Scandinavia in bottling and brewing, and recently in Bang & Olufsen, because we believe the brand has significant potential that is being under-utilized."

### Niche markets

Atorka is another investment company focusing on niche investments across the world. The value-driven company is also growing outside of Iceland, with more than 60% of its operations coming from foreign investments. Its current strategy is to grow this to around 80 or 90%.

Magnús Jónsson, CEO says: "We are focusing on buying new platforms in which we can become world leaders in markets that are fragmented and which have opportunities for consolidation. They must have strong and healthy management and be in growing markets."

Atorka's remit is diverse. It has a presence in a number of firms, in industries ranging from plastic production to bio-thermal drilling and is looking to expand in the next two to three years. It has also invested in glass manufacturing and water filtration, particularly within Asia and South America.



### Iceland's outstanding beauty attracts around 300,000 visitors a year

Jónsson says: "Our mission is supporting smart companies in taking advantage of global trends, like the increased need for water, or alternative energy, as well as changes in shipping and manufacturing. We now have an established business in Europe and the U.S., but today, the growth is in Asia, particularly China, and South America. We take the platform and move the product line and the management into those areas." The company recently launched an international campaign to attract more joint ventures, with a view to growing three-to-five-fold within the next three years.

Jónsson says: "Of course, we have to establish ourselves abroad, but it is very easy to operate here. It has a business environment, good tax benefits and is situated between the U.S. and Europe. I am not worried about the economy. The currency was too strong and consumer spending has been great lately, but it will eventually slow down."

Fishing, however, remains Iceland's most important industry. The clear, unpolluted

seas off the coast of Iceland yield seafood that is hard to beat in terms of taste and quality. As one of Iceland's top seafood companies, Brim Seafood is helping maintain this reputation by ensuring the supply of fish is managed responsibly and sustainably. Gudmundur Kristjánsson, president and CEO says: "Our goals are to protect this precious resource from over-fishing, to safeguard the oceanic environment and to guarantee the best quality fish to the world market."

Kristjánsson and his brother joined this family fishing company in 1984. It has achieved annual growth of more than 20% since 1997 and is committed to expansion.

The U.K. is Brim's most important customer, importing around 50% of its high quality and affordable products. China, Taiwan and Japan account for around 30% collectively, and the rest goes to Central Europe and the U.S. Kristjánsson says: "We aim to create value for customers that can be sustained over the long-term."

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