

INVEST IN ICELAND

SPECIAL PROMOTION

**A GUIDE TO BUSINESS
OPPORTUNITIES**

LOCATION + LEGISLATION

Many investment opportunities exist in Iceland.

INTRODUCTION BY PÁLL STEFÁNSSON.

Iceland is perfectly located midway between North America and Europe, and connected by high-speed submarine fiber cables and direct flights from Keflavík International Airport to more than 70 cities on both sides of the Atlantic Ocean.

Iceland offers a favorable business environment and a great, unspoiled natural environment, with the availability of land and 100 percent green and sustainable energy—all within the European legislative framework—with a highly-qualified workforce.

The International Telecommunication Union ranked Iceland third out of 167 countries in its 2015 ICT Development Index, based on information and communication technologies.

Data centers, life sciences and tourism are the three sectors attracting the most foreign investment at the moment.

The country is attractive for data centers because of green and competitively priced energy, the cold climate and good connections to the east and west. In life sciences, Iceland has a proven record forged by firms like Actavis and deCode.

As for tourism: well, it seems right now that everyone wants to see and experience the hot nightlife of Reykjavík, the cold glaciers, and everything in between.

Last year, 1.4 million tourists came to Iceland, up by 400,000 visitors in only one year—more than the entire population of Iceland.

Iceland and Switzerland are the only European countries to have established free trade agreements with China—opening up unprecedented opportunities for North American and European companies to use Iceland as a stepping stone to gain a foothold in one of the largest and fastest-growing markets in the world.

Most importantly, our government is stable, we have robust corporate legislation, low crime and corruption rates and low corporate taxes—all in a country connected to the world in the fastest possible ways.

KEY STATISTICS

The corporate tax rate in Iceland stands at 20 percent.

The unemployment rate is 2.3 percent. In the long-term, the country's unemployment rate is projected to trend around 3.4 percent by 2020.

The annual GDP growth rate for 2016 is expected to be 2.85 percent, whereas the long-term growth rate is forecast to grow slightly to around 3.43 percent in 2020.

Iceland's population (332,750) represents less than 0.01 percent of the world's total population, which means that one in every 21,834 people on the planet is a resident of Iceland. The Reykjavík Capital Area is home to 213,760 people.

Iceland recorded a government budget deficit equal to 0.2 percent of the country's GDP in 2014.

Flight times:

Iceland to New York: 6 h.

Iceland to London: 3 h.

Iceland to Berlin: 3.5 h.

Iceland to Seattle: 7 h 15 m.

The GDP per capita in Iceland in 2014 was USD 59,693, which is equivalent to almost five times the global average.

The Core Inflation Rate in Iceland increased 2.41 percent in December 2015 over the same month in the previous year. The country's Core Inflation Rate averaged 5.01 percent annually from 1998 until 2015.

The country's rate of home ownership increased to 78 percent in 2014 from 77.5 percent in 2013.

Iceland ranked 19th in 2015 for ease of doing business, according to the World Bank.



ICELAND'S COMPETITIVE EDGE

Key sectors including life sciences, technology, chemicals and tourism are attracting foreign investment.

Iceland offers an array of opportunities for international investors who are seeking an advanced economy with an educated labor force, strategically located between Europe and North America. The abundance of green energy from renewable geothermal and hydropower sources has attracted energy-intensive industries such as aluminum and other metals, but now there is fast-growing interest from other sectors as well. "Data Centers, life sciences, chemicals and tourism are now attracting foreign investment," says Þórður H. Hilmarrsson, managing director of Invest in Iceland. "Knowledge and advanced infrastructure are key ingredients."

LIFE SCIENCES AND TECHNOLOGY

Technology and life science firms find that Iceland is a natural fit for business. "This is a very positive trend for Iceland," says Þórður. "We offer a unique environment for these investors, and we are optimistic about future growth." Key sectors in life sciences and technology include data centers, carbon fiber, and algae culture.

Chemical and pharmaceutical corpo-



Þórður H. Hilmarrsson, managing director of Invest in Iceland.

rations are investing in Iceland as well. Multinational pharmaceutical company Alvogen is currently constructing a new high-tech center on the campus of the University of Iceland, where the development and production of generic pharmaceuticals will be the main focus.

COMPETITIVE INCENTIVES

Iceland offers foreign investors a very attractive incentives program. In fact, new direct investment ventures can apply for an agreement that ensures the authorization to fix an income tax rate ceiling of just 15 percent for a period of 10 years. Investors could also fully depreciate real estate, equipment and moveable assets, and reduce the rate of property tax and the general social security charge by 50 percent. Other incentives include granting exemption from customs and duties for construction materials, machinery and equipment and other capital goods, and the state and municipalities are allowed to lease sites for projects at reduced rates.

CHINA FREE TRADE

In 2013, Iceland became the first European country to sign an extensive free trade agreement with China in 2013, which creates new opportunities for North American and European investors seeking to export to China. "There are a number of sectors that would benefit from locating their operations in Iceland and exporting to China," says Þórður. "And there are opportunities for Chinese businesses to produce in Iceland for export to Europe."

Invest in Iceland believes the growing economy, along with full government support, makes a compelling case for foreign investors to consider Iceland. "Iceland's government has shown strong support," says Þórður. "The government is dedicated to increasing investment and ensuring Iceland's competitiveness. We are working to communicate that message abroad."

invest.is





INCREASED INTEREST IN TOURIST AND INFRASTRUCTURE INVESTMENT

Engineering and innovation consultancy company Mannvit is one of Iceland's largest and has 18 offices in seven countries: Iceland, Germany, Hungary, Norway, the UK, Chile and Greenland.



Tryggvi Jónsson, Mannvit's Director of Infrastructure.

"In the Hotel EDITION project we developed the project from the start, including negotiations with operator and financing, as well as doing the design, procurement, construction management and supervision."

Mannvit's services are split into the three core areas of energy, industry and infrastructure. Tryggvi Jónsson, Mannvit's Director of Infrastructure, tells us more about what his department is up to.

GROWING OPERATIONS

Recently we have been emphasizing the development of our own projects here in Iceland, as well as providing a consistently good and economical service to our customers. We are experiencing strong growth in the tourism industry in Iceland, which brings with it various projects; especially in the construction of hotels and projects linked to various tourist attractions.

To increase our market, we have been chasing projects in Norway since 2012, as there has been a lot of growth there thanks to the economic upturn in the country. We now have, for example, a contract with the Norwegian Roads Administration for the redesign of 21 road tunnels, and we are designing 11 bridges for the E18 motorway from Oslo down to the Swedish border, which is one of the busiest roads in Norway. Mannvit also has projects underway for Gardemoen Airport, the City of

Oslo and other municipalities in Norway.

Mannvit recently opened offices in Nuuk, Greenland and already has several projects, including the design of airports, project management at Nuuk harbor and servicing oil and energy companies.

DATA CENTERS AND TRANSPORT

Mannvit provides a comprehensive and wide-ranging set of services for the construction of all sorts of infrastructure projects. Our client base is very wide and we therefore need to define precisely which services are best-suited to each and every client individually. Some want us to take charge of all project components, while others have very strong ideas about how their projects should be run. This makes it essential to approach every project differently, depending on the client.

Mannvit has been involved with the development of Verne Global, Iceland's largest data center, since the very beginning. We have also been involved in the improvements made to Keflavík International Airport, as well as consulting on new road and air travel developments for the City of Reykjavík.

MARRIOTT EDITION CONSTRUCTION

One of the most exciting things we are doing in Iceland right now is the new five-star Marriott EDITION Hotel being built next to the Harpa Concert and Conference Center in the heart of Reykjavík. It will be one of Iceland's best hotels and will be around 16,000 m² (172,200 ft²) in size with a similar size development of apartments and retail units alongside. Mannvit is working with Tark Architects on all aspects of development, design, procurement and construction management for this EUR 100 million project.

mannvit.com





INVEST IN REYKJAVÍK, INVEST IN INNOVATION

With a well-educated and skilled workforce, affordable green energy and tremendous business investment opportunities, Reykjavík offers a wealth of resources to creative and globally-minded entrepreneurs and investors.

Downtown Reykjavík is a lively hub, home to a flourishing cultural scene, as well a thriving startup community. Businesses are bolstered by a cost-competitive environment and low corporate taxes (20 percent), while startups benefit from mentorship and seed stage investment organizations, such as Startup Reykjavík. Iceland Startups is one of several active entrepreneurial education groups and business accelerators, and entrepreneurs from around the world gather for annual Startup Iceland and SeedForum Investment conferences.

VIRTUAL REALITY BOOM

Óli Örn Eiríksson, Head of Economic Development at the City of Reykjavík, can

call to mind dozens of recent investment success stories. 2015 was a particularly remarkable year for Reykjavík-based Virtual Reality (VR) gaming and software development companies. CCP Games partnered with the Facebook-owned tech company Oculus Rift to develop the immersive VR game *EVE: Valkyrie*, receiving USD 30 million of investment capital for the project. International investors provided Sólfar Studios with USD 2.2 million to launch its game *Everest VR*. Meanwhile, Plain Vanilla, developer of the *QuizUp* mobile app, brought in USD 32 million to support its transition into a broader social media network.

Tech-related industry cannot prosper without generous sources of dependable, cost-effective energy; so it's no wonder

that so many successful organizations in these fields are based in Reykjavík. The city's infrastructure is second-to-none, and nearby geothermal and hydro energy providers ensure that companies such as Advania and Verne Global can provide competitively-priced data storage solutions for their global customers.

In fact, 99 percent of all electricity in Iceland is generated from green, renewable energy. It's typical for energy providers to focus solely on electricity production, but the four geothermal facilities within one hour of Reykjavík take a strictly no-waste approach. For instance, the Hellisheiði plant exploits its extensive resources to provide residents throughout Southwest Iceland with electricity, as well as hot water for domestic heating. Outside of elec-



tricity production, the Reykjanes Resource Park, near Keflavík International Airport, also powers a biotechnology research center, tropical fish farming, renewable methanol production and molecular farming by utilizing steam, sea water wells and CO₂ streams.

REYKJAVÍK SCIENCE CITY

Such imaginative ventures flourish due to the efforts of Reykjavík's 'innovation professionals.' The economic vitality of a city depends on these individuals, says Óli Örn: they are people who create new products and encourage a truly progressive economic environment. Reykjavík is dedicated to developing job opportunities for these innovators.

Enter the Reykjavík Science City, a centrally-located, multi-use park with building plots for knowledge-driven industries, expanded housing and university residences.

DeCode Genetics already has facilities here, and the international headquarters of both Alvogen pharmaceuticals and CCP are relocating to Science City, too. In an effort to cultivate a centralized tech community, CCP intends to open its facilities to local IT companies—both established organizations and fledgling companies just getting off the ground.

SMALL COMPANIES, BIG EXPERIENCE

This represents an exciting new horizon for Reykjavík, though it has long offered a variety of incentives for skilled professionals who want to gain valuable training in the workplace. Perhaps unexpectedly, such benefits are often due to the smaller scale of businesses in Iceland. Professionals working in smaller organizations learn to wear many different hats and have more opportunities for quick advancement, Óli

Örn explains. "You might start in IT and then find yourself working in product development, or as a public relations manager. It's basically three years of experience in one."

Reykjavík has built a reputation for creative entrepreneurship and green industry, but this forward-looking city is only getting started. Here, innovation is truly a way of life.

investinreykjavik.is





ICELANDIC STARTUPS: A GROWING COMMUNITY

More than 50 teams have participated in Icelandic accelerator programs since 2012.

Iceland's startup scene is thriving and Icelandic Startups, a non-profit organization, is the largest privately owned supporter of startups in the country. Icelandic Startups support teams from the seed of an idea through to the first or second round of funding. The organization's services are presented under three main categories: Idea, Growth and Community; providing customized support for entrepreneurs and startups, along with various opportunities to network and develop their ideas.

The company, which until recently was known as Klak Innovit, changed its name in early 2016 due to the increased focus on international relations. "Since the beginning, we have been developing international relations with the aim of building bridges for Icelandic startups to leading startup hubs abroad, connecting them with industry experts, investors and media," says Salóme Guðmundsdóttir, CEO of Icelandic Startups. The organization is involved in various activities, including startup weekends, a business plan competition, three different accelerator programs, workshops, community events and startup showcases abroad.

COMMITTED SHAREHOLDERS

Icelandic Startups' largest shareholders are the University of Iceland, Reykjavik University, NSA Ventures, the Federation of Icelandic Industries and Nýherji, one of the largest IT companies in Iceland. "We focus on ideas that come up within the universities, and are looking to foster dynamic teams with scalable ideas, aiming for the global marketplace." So far, 54 teams have participated in the accelerator programs since 2012, and about 70 percent of them are still active. Together the teams have raised over USD 10.5 million in funding, and two-thirds are investments from angel investors and venture capitalists.

GROWING COMMUNITY

The Icelandic startup community is dynamic, dense and growing. "We feel that entrepreneurship is becoming more approved as a career path," says Salóme. "Furthermore, no matter where you look, everyone is agitating innovation. The government is taking important steps to increase support and make the environ-

ment more efficient, and more funds are being raised for seed and early growth startups. Our universities offer quality education where the innovative mindset is being incorporated, private companies are becoming more aware of the importance of innovation, and we have even seen new media focusing solely on startups and their businesses, thus bringing success stories into the spotlight."

DIVERSE SECTORS

The most popular startup sectors in Iceland include energy, marine, tourism and health. Iceland has also become very active in the gaming and virtual reality space, and is considered a global leader when it comes to the development of virtual reality programs, with CCP Games at the forefront. To embrace this sector, Icelandic Startups, in cooperation with key influencers within the Icelandic gaming and VR scene and Slush (Finland), organized an international conference in Reykjavik last year with the aim of bringing together Nordic startups within the industry and investors from the US and Europe. "We hosted a two-day conference called Slush PLAY where we had some of



Left: Hilmar Veigar Pétursson, CEO of CCP Games and the President of Iceland Ólafur Ragnar Grímsson.

Right: Orri Hauksson, CEO of Síminn, Minister of Industry and Commerce Ragnheiður Elín Árnadóttir and Ingvar Pétur Guðbjörnsson, assistant to the minister.



Salóme Guðmundsdóttir, CEO of Icelandic Startups.

“We focus on ideas that come up within the universities, and are looking to foster dynamic teams with scalable ideas, aiming for the global marketplace.”



The Icelandic Startups team.



Panel discussion at Slush PLAY 2015.

the movers and shakers from the global gaming and virtual reality industry participating with a keynote or in panel discussions,” says Salóme. “We were so happy with the outcome that we have decided to host Slush PLAY again this year—so save the dates September 29-30.”

FUTURE PLANS

Icelandic Startups staff are busy with ongoing projects and organizing the months ahead. “To give you a glimpse of what’s

on the drawing board, we are preparing to bring a Nordic delegation of startups and community leaders to Silicon Valley this spring, and the Nordic Startup Awards’ Grand Finale will then be hosted in Reykjavik at the end of May. We also have the Startup Reykjavik accelerator program, open for applications until March 31. We are also organizing an event focused on angels and VCs that will be hosted next fall and better promoted soon,” Salóme says.

icelandicstartups.com



ICELAND'S ECONOMIC OUTLOOK POSITIVE

The investment environment in Iceland looks bright, with strong growth in the equity market, an attractive bond market, improved credit ratings and thriving tourism.



Iceland's economy continues to strengthen and the outlook for 2016 looks positive. This positive outlook is reflected in the stock market. Nasdaq Iceland's OMXI8 index rose by 43 percent in 2015 and the market has enjoyed a healthy growth in recent years.

A variety of companies are listed on the exchange, including businesses in retail, fishing, transportation, insurance and other sectors. The largest listed companies, Icelandair Group and Marel, have done well over the past several years, and the economy as a whole is estimated to have grown 4.1 percent in 2015. Iceland is poised for growth between 4 and 5 percent in 2016. The country's macroeconomic prospects, along with the upcoming relaxation of capital controls, means foreign investment could grow substantially in 2016.

Additionally, Iceland's central bank has raised its key rate three times since June, to 5.75 percent, reflecting economic growth that is now substantially faster than the Eurozone average.

GROWING EQUITY MARKET

There is continued growth in the equity market and the prospects for 2016 look good, says Páll Harðarson, president of the Nasdaq Iceland Stock Exchange. "The macroeconomic situation is helping and the economy is doing well, with most indicators positive," he says, adding: "Iceland is also enjoying low unemployment and credit agencies have raised Iceland's ratings." With respect to the bond market, yields, with government bonds around six percent, are attractive to international investors.

RELAXING CAPITAL CONTROLS

Iceland is in the process of lifting capital controls that were put in place after the 2008 financial crisis. In 2008, Iceland became one of the biggest casualties of the global financial crisis when its debt-burdened commercial banks collapsed under the strain of the worldwide credit squeeze.

The value of the króna plummeted and Iceland was forced to seek a bailout from Europe and the International Monetary Fund (IMF).

Lifting capital controls is an important step in Iceland's continued recovery, Páll highlights. "We are expecting to see a drastically different investment environment. Relaxing capital controls opens the door for more growth and more investment opportunities, and we could be seeing a new wave of smaller growth companies entering the market."

In January, it was announced that Iceland's pension funds would be allowed to invest ISK 20 billion (USD 154 million) abroad in the first four months of the year. As Iceland's pension funds are opening up, officials are expecting more international assets to flow in. With interest rates higher in Iceland than in virtually every other developed economy in the world, it is unlikely that locals will be rushing to take their money out of their bank accounts. In fact, it is more likely foreign investors will put more in.



Páll Harðarson, president of Nasdaq Iceland.

CREDIT AGENCIES MORE POSITIVE

International credit ratings agencies have been decidedly positive about Iceland's economic outlook. In January, Standard & Poor's (S&P) bumped Iceland's credit rating up by one notch to BBB+ and said that the outlook for Iceland is "stable." In a statement, S&P said that the upgrade "reflects our expectation that general government debt will continue to decline over the next four years, lowering government expenditure on interest payments." Fitch Ratings agency in January maintained its rating for Iceland at BBB+.

CONTINUED TOURISM GROWTH

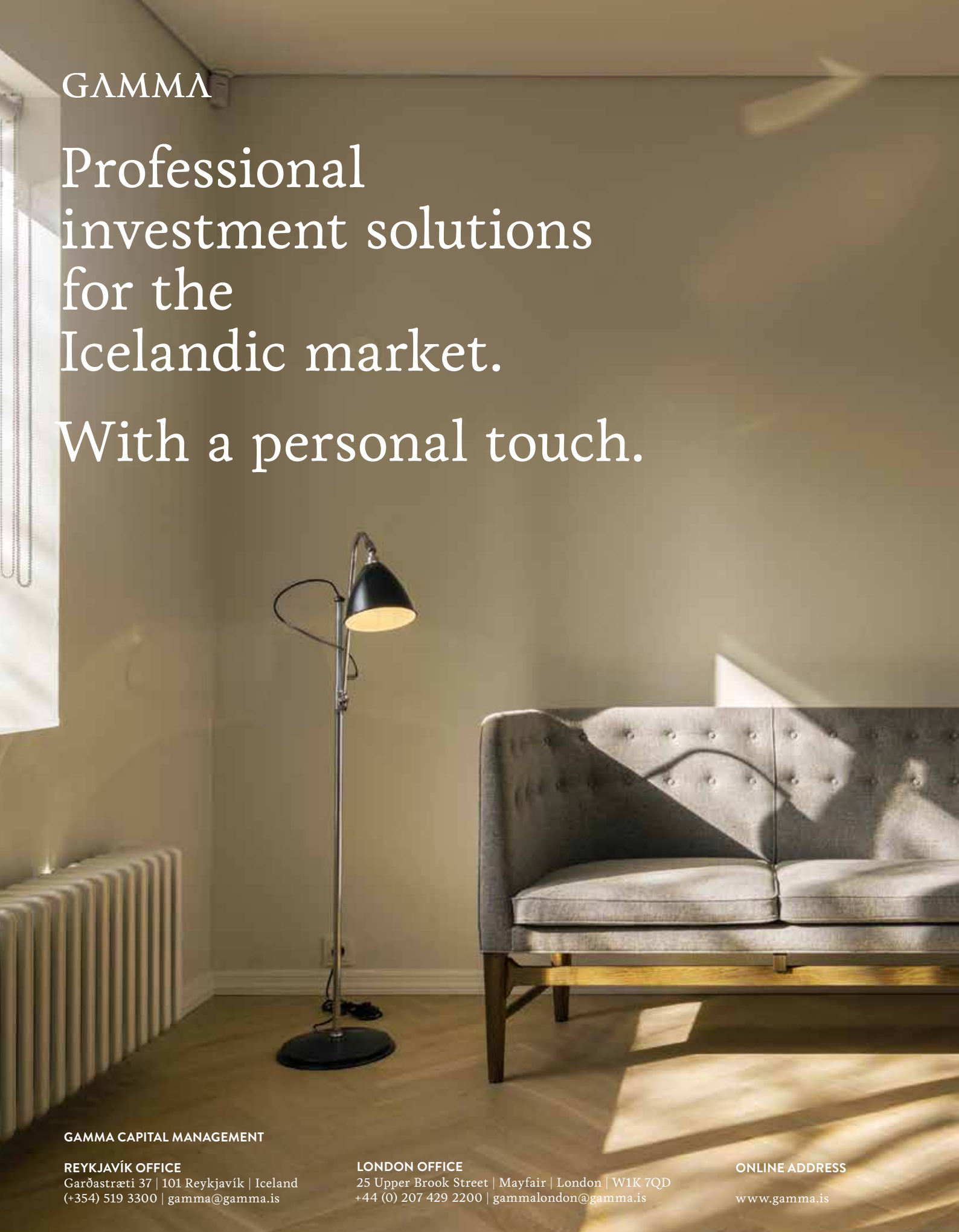
Tourism continues to grow in Iceland and is the single biggest contributor to Iceland's exports. "We have great hopes that in the next few years this sector will continue to grow," says Páll. "We are hoping to attract companies like local hotel chains and large tour operators. It would be very interesting to see tourism-related companies enter the market to a greater degree."

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