



The Federation of Icelandic Industries

To whom it may concern

Update: October 28th 2008

Subject: The Economic situation in Iceland – Industry perspective

Iceland is currently going through a tough economic and financial crisis affecting all normal businesses and transactions. This crisis originated in the global credit crunch which led to the bankruptcy of three Icelandic banks: Glitnir, Landsbanki and Kaupthing. Three new banks have been established by the Icelandic state. They now run part of the operations of the old banks.

In the process of this transition money transfers to and from Iceland have been difficult. There are cases of overseas banks fearing their transactions will end in a moratorium, leaving them liable to the receiving party. As a result they do not execute normal and appropriate orders for payment to the Icelandic banks. Due to this situation recipients are experiencing difficulties in making timely payments on their obligations. These problems have been occurring between Iceland and most other countries. However, transactions with the United Kingdom have by far been the most difficult. This is a direct consequence of the extremely harmful measures taken by the British authorities against Iceland. **Their actions were corrected October 18th with a notice from the HM Treasury stressing that the Landsbanki freezing order only applies to transactions involving Landsbanki. It does not affect Icelandic companies with no links to Landsbanki.**

The Central Bank of Iceland has adopted a temporary method for international payment intermediation. This method involves routing banking institutions' payments to and from Iceland through the Central Bank's own accounts with foreign counterparts, which generally have no involvement with the operations of Icelandic banks.

The Central Bank of Iceland has declared to foreign credit institutions that it will guarantee that all payments routed through the Central Bank's accounts to the accounts of Icelandic credit institutions will be delivered to the credit institutions concerned, for the benefit of the relevant account holders in those institutions. Any foreign parties fearing they will be held liable for non-delivery can rest assure their payments are being routed to the appropriate parties.

The SI would like to assure its member companies and their business partners throughout the world that the Icelandic authorities are working hard to restore normal currency trade and the economy of Iceland. An important step in that process is a technical and financial assistance from the International Monetary Fund (IMF) and the Nordic countries. SI is in close cooperation with all relevant parties in order to resolve current problems. The fundamentals of the Icelandic economy are strong with a stable export industry despite these difficulties. The swift economic change is also likely to bring about new opportunities resulting in a brighter future for industries in Iceland.

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About SAMTÖK IÐNAÐARINS - SI (Federation of Icelandic Industries)

The SI is the largest employer's organization in Iceland with approximately 1.200 member companies. The industry employs roughly 25% of value added and employs 20% of the labor force. The SI looks after the interests of industry in every way and in close co-operation with the individual enterprise.