

ADDRESS OF THE BOARD OF DIRECTORS: STRENGTHENING THE ECONOMY

Framtakssjóður Íslands slhf. (samлагshlutafélag) was established in December 2009 to participate in the recovery of the Icelandic economy after the collapse of the year 2008. There were sixteen pension funds within the framework The National Association of Pension Funds, which established the Enterprise Investment Fund and with which the pension funds wanted to contribute to strengthening the Icelandic economy. Establishment of The Enterprise Investment Fund was based on thorough preparation of the shareholders and detailed terms were set forth for the Fund's operations. The Enterprise Investment Fund was provided with ISK 30 billion. in share capital and may increase it up to ISK 90 billion. Guarantor of Framtakssjóður Íslands slhf. is Framtakssjóður Íslands GP (General Partner).

The activities of the Enterprise Investment Fund are temporary, but the term of office can be a maximum of thirteen years. The fund focuses in particular on larger, operating companies that have experienced financial difficulties due to the collapse but are viable and can return good returns. Active holdings in the companies in which investments are made are assumed. On average, the minimum investment is two hundred million ISK. and the aim is to list companies on the stock market and on average 20-55% of the share capital of the company in question is invested. The Board also worked on a shareholder policy for the company in 2010 and it was approved at the beginning of 2011.

One of the first companies that the fund looked to invest in was the insurance company Sjóvá and this was done in collaboration with the largest insurance company in the Faroe Islands (Tryggingafélagið Føroyar). This investment did not materialize and the company was taken off the market and not sold until just over a year later and then to other parties. The next investment, which was examined in detail, was Icelandair, and agreements were reached on

the purchase of a controlling share in the company. Two representatives of the Enterprise Investment Fund took a seat on Icelandair's five-member board and the company was financially rebuilt. The eruptions at Fimmvörðuháls and Eyjafjallajökull made the operations very uncertain, but the results of the company's employees and board in 2010 were excellent and the year was the best operating year in the company's history. This investment is therefore very profitable for the Enterprise Investment Fund.

In mid-2010, Landsbanki Íslands (NBI) began negotiations with the Enterprise Investment Fund to buy Vestia, which was Landsbankinn's investment company with many of the country's larger companies that Landsbankinn had taken over after the collapse. After lengthy negotiations, these acquisitions were successful and Landsbankinn also acquired a 25% share in Framtakssjóður Íslands, which increased the fund's share capital to ISK fifty-five billion. Much work awaited the board and employees of the Enterprise Investment Fund to reorganize these companies with their employees, and it went very well. The acquisition was subject to the approval of the Competition Authority and an agreement was reached with the Competition Authority on the acquisition of Vestia at the beginning of 2011. The largest company in this investment is Icelandic Group and has been working to sell off the company's foreign operations and has taken some time. to complete sales processes in 2011. The aim is for this investment to be very profitable for the Enterprise Investment Fund. The second largest company within Vestia was Teymi, which has been divided into two main companies, Skýrr and Vodafone, and the restructuring went well.

At the company's annual general meeting for the year 2009, which was held at the end of 2010, Auður Finnbogadóttir, Guðfinna Bjarnadóttir and Vilborg Loftsbogadóttir resigned, but the new board members were Auður Björk

Guðmundsdóttir, Linda Jónsdóttir and Hrefna Ösp Sigfinnsdóttir. Ágúst Einarsson continued as Chairman of the Board and Ragnar Önundarson remained Deputy Chairman. In the first half of 2011, Ragnar Önundarson resigned from the fund's board and at a shareholders' meeting, Jón Steindór Valdimarsson was elected in his place and Þorkell Sigurlaugsson was elected vice chairman.

In its first regular year of operation in 2010, the Enterprise Investment Fund has done a lot of

work and invested in companies with almost ISK 300 billion. annual turnover and with almost 8,000 employees in many countries. Profit of about seven hundred million ISK. was from the Enterprise Investment Fund's operations in 2010 and the return on equity was 49% during the year and the asset position is very strong. It is therefore clear that the fund's operations have been very successful and in a short time, in the opinion of the fund's board, the expectations that shareholders made of the fund when it was established just over a year and a half ago have been met.

REPORT OF THE CEO: AN IMPORTANT ROLE OF THE ICELANDIC ENTERPRISE INVESTMENT FUND

Icelandic society has in recent months gone through significant difficulties following the collapse of the Icelandic banking system. In a short time, the operating assumptions and ownership of many Icelandic companies changed and many of them became directly or indirectly owned by banks and financial companies. Such ownership is not good and it is important that it lasts only a short time.

The Icelandic Enterprise Investment Fund was established in December 2009 with the aim of participating in the foreseeable transformation process and of investing part of the pension funds' disposable capital through active participation in the reconstruction of the Icelandic economy. In the next few years, the Enterprise Investment Fund will work with the management and employees of the companies in which it invests to build strong companies that can be leaders in their field and at the same time return good returns to investors. As can be considered normal, there was a great deal of discussion in society about the investments and procedures of the Enterprise Investment Fund during its first year of operation. The Enterprise Investment Fund is in fact owned by the members of the pension funds and it is natural for the general public to have an opinion on what the fund does. It is in itself nothing new for pension funds to buy shares or bonds of prominent companies in society and companies that are in fierce competition with other companies. What is new is mainly two things: On the one hand, all investments in which the Enterprise Investment Fund participates are made public as soon as the final decision is made. Previously, individual investments were not necessarily widely known. It is natural for opinions to be divided on whether pension funds should invest in an airline or electronic communications company or how to sell a share in or part of a sales company in the fisheries sector. Such a critical discussion is natural and positive because one of the main

goals of FSÍ's operations is to return good returns to fund members, and then it matters what is invested in and how the sale of assets is carried out.

On the other hand, the Enterprise Investment Fund can take a larger position in individual companies than individual pension funds could or wanted to take before. This means that the Enterprise Investment Fund can have a greater influence on the policy-making and activities of companies than was previously the case. FSÍ is therefore in fact a new competitor in the investment market and it is not necessarily suitable for those who want to sit alone in buying promising companies. There are many examples of the fact that in previous years the funds of the pension funds were welcomed into the companies when the owners of the companies in question needed them, but they were not to have any influence on their work or policy.

2010 was the first year of operation of the Icelandic Enterprise Investment Fund, but daily operations began in March 2010 when the managing director took office. During the year, there were on average 4 employees working for the fund. With increased activity, the number of employees has increased and in May 2011, 7 employees work for the Enterprise Investment Fund. In the past 14 months, a lot of water has flowed into the sea and the emphasis has been on building up a portfolio in accordance with the fund's policy. Detailed procedures were formulated and approved by the board, as well as ethical and code of conduct. The main content of the fund's shareholder policy is that FSÍ is an influential investor who, together with a good return on its equity holdings, aims to promote the growth and development of the companies in which it invests. Emphasis is placed on environmental and social aspects of companies' operations and the importance of good and responsible governance.

THE DREAM TEAM



2010 var fyrsta eiginlega starfsár Framtakssjóðsins og voru starfsmenn að jafnaði 4 á árinu. Með auknum umsvifum sjóðsins hefur starfsfólki fjölgað og í maí 2011 eru 7 starfsmenn hjá sjóðnum. Starfsmenn Framtakssjóðs Íslands í maí 2011 eru Finnbogi

Jónsson, framkvæmdastjóri, Björk Gunnarsdóttir, skrifstofustjóri, Harpa Helgadóttir, þjónustufulltrúi, Herdis Fjeldsted, fjárfestingastjóri, Kristinn Pálmason, fjárfestingastjóri, Pétur P. Óskarsson, sérfræðingur og Þór Hauksson, fjárfestingastjóri.