

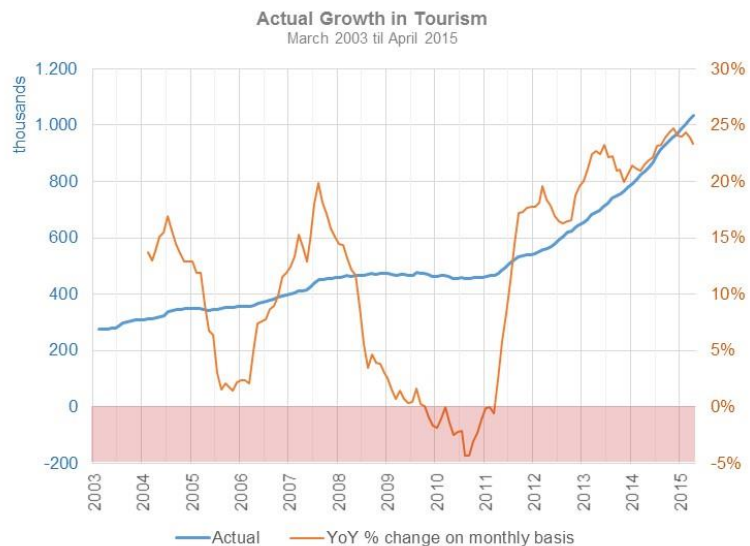
An Excerpt from the Editorial of the Weekly Courier

May 25th, 2015

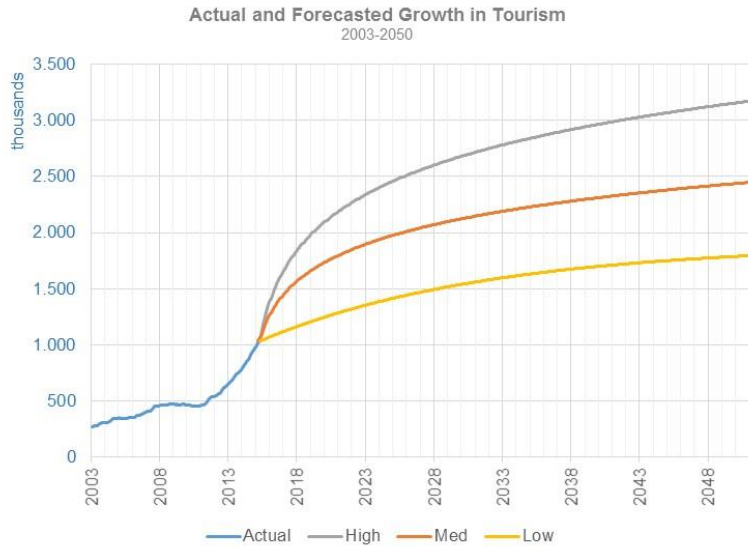
Growth in Tourism

Tourism in Iceland has grown considerably in the last few years. Year-on-year growth has been above 17% every month since September of 2011. This recent growth period was preceded by a trough that lasted four years which had begun once it was commonly accepted that something was awry in the subprime loan market in the US.

Following, albeit a belated, global recovery, a couple of volcanic eruptions, global changes in tourism, an empowered Asian middle class, “normalized” ISK exchange rate, changes in bookings aided by technological shifts (Booking.com, Air BNB, etc) and a successful Icelandic rock band tour to boot, the number visitors to Iceland started inching upward. Interestingly, the inflection point in the latter part of 2010 coincides with the recovery in housing prices in Iceland and other countries.



Changes in tourism numbers in Iceland has been of great interest to us at the Weekly Courier. The first graph shows the number of non-Icelandic entrants into the country using the airport. The blue line presents trailing 12 month entrant figures. Since the onset of the Crisis and for several quarters, retail sales figures decreased across the board, except for foodies. The reason is just as obvious as it is ominous. Essentially, two variables affect output: beneficial changes in technology and population growth. The arrival of video-on-demand has no direct effect on increased food consumption. Increases in population from 5-15% has. Not only has this increase in population of predominately spending adults an effect on food consumption, but also restaurants, alcoholic beverage consumption, hotel stays and thus real estate prices, car imports and secondary car prices, tarmac abrasion to name a few and, of course, Iceland’s auspicious yet fragile nature. Barely touched and scenic, clean and safe and all within a 5 hour flight for 60% of the Western World.



In an effort to gauge tourism's effect on retail sales and its auxiliary, we have forecasted the number of visits to Iceland. We have looked at several variables such as tourism figures for other countries, measured the effects of changes in number of airliners flying to the island, historical effects of exogenous shocks, both economical and natural, number of hotel rooms available and being built and a cornucopia of other factors to

assess tourism in Iceland going forward. We believe that there is an effectual maximum number of tourists that can be accommodated in Iceland. Limiting factors such as hotel rooms, the road system and other factors of municipality, number of able bodied workers, etc. Risks, both positive and negative, include but are not limited to the global economy, commodity prices, technological changes, volcanoes and earthquakes and fashion trends.

The results of our forecasting of number of visits to Iceland are presented in the latter picture. Currently, just over a million visitors come to Iceland via flight. Our base case assumes a maximum number going forward of 2.5 million. Our low-end assumes a maximum number of 1.8 million. We do not believe that the number will retract below 1 million in the long-term..