



Invest in Iceland Agency

KEFLAVIK International Airport Airport Area Development Strategy – Part 2

- Task 1 : Best Practice Amsterdam, Berlin, Frankfurt –**
- Task 2 : Update Stakeholder Mapping and Mission Statement –**
- Task 3 : Options for Corporate Governance Model –**
- Task 4 : Master Plan Review –**
- Task 5 : Definition of Key Clusters**

Final Report

June 2007

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**KEFLAVIK INTERNATIONAL AIRPORT
AIRPORT AREA DEVELOPMENT STRATEGY**

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AMSTERDAM/ BERLIN/ FRANKFURT**

**TASK 2 : UPDATE STAKEHOLDER
MAPPING AND MISSION STATEMENT**

**TASK 3 : OPTIONS FOR CORPORATE
GOVERNANCE MODEL**

**TASK 4 : MASTER PLAN
REVIEW**

**TASK 5 : DEFINITION OF
KEY CLUSTERS**

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ANALYSIS KEY CLUSTERS**

Purpose and Methodology

- A Best Practice Fact Finding Trip was organised by PwC to the airports and airport areas of Amsterdam, Berlin and Frankfurt for all the stakeholders of the Keflavik Airport Area.
- The participants have learned a great deal with regards to corporate structures and operational issues of airport area development companies.
- The first task exists of making an overview of these findings.

Purpose and Methodology

Summary of the program of the Fact Finding Trip to Amsterdam, Berlin and Frankfurt :

Program Fact Finding Trip Amsterdam

Tuesday 13/2	Introductory session : Presentations by Fred Vossen, Tine Delbare, Jan Desmaretz and Willem Trommels
Wednesday 14/2	Presentation by Paul Jansen Head of Strategy of Schiphol Area Development Company (SADC) + Q&A Presentation by Mathijs Smith of Schiphol International + discussion Site visit Amsterdam Airport Area guided by Paul van den Brink, Marketing Manager of SADC

Program Fact Finding Trip Berlin

Thursday 15/2	Presentation on the new airport Berlin-Brandenburg International (BBI) by Ms Katja Lowinski, Corporate Communications Flughafen Berlin Schonefeld (FBS) Presentation on Berlin Area Development Company (BADC) by interim Director Roger Rabbe Site visit Berlin Schoenefeld
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Program Fact Finding Trip Frankfurt

Friday 16/2	Airport bus tour, incl. surrounding developments : Gateway Gardens, Cargo City South, Mönchhof with Mr Franco Greco, Fraport Presentations of Fraport Group and Frankfurt Airport by Mrs. Astrid Wittorff (Fraport Marketing Strategy) Discussion with Real Estate Department Fraport Mr. Hadid, Project Directors Retail and Properties
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Participants of the Fact Finding Trip to Amsterdam, Berlin and Frankfurt :

Participants Fact Finding Trip Amsterdam/Berlin/Frankfurt			
Icelandic delegation			
	Name	Function	Presence
1	Árni Sigfusson	Mayor Reykjanesbaer	Amsterdam, Berlin, Frankfurt
2	Sigurdur Valur Ásbjarnarson	Mayor Sandgerdi	Amsterdam, Berlin, Frankfurt
3	Arnar Sigurjonsso	Chairman of Gardur	Amsterdam, Berlin, Frankfurt
4	Kjartan Eiríksson	CEO KADECO	Amsterdam, Berlin, Frankfurt
5	Bjorn Ingi Knútsson	Airport Director Keflavik Int. Airport	Amsterdam, Berlin, Frankfurt
6	Fridthor Eydal	Director of Information, Keflavik Int. Airport	Amsterdam, Berlin, Frankfurt
7	Thorgeir Palsson	CEO Flugstodir (Icelandic Civil Aviation)	Frankfurt
8	Höskuldur Ásgeirsson	CEO Leifur Eiríksson Terminal Ltd.	Amsterdam, Berlin
9	Stefan Jónsson	Director of Ter Leifur Eiríksson	Amsterdam, Berlin, Frankfurt
10	Thordur H. Hilmarsson	CEO Invest in Iceland Agency	Amsterdam, Berlin, Frankfurt
11	Einar H. Tómasson	Project Manager Invest in Iceland Agency	Amsterdam, Berlin, Frankfurt
12	Olafur Sveinsson	Chairman of Flugstodir	Frankfurt
PwC Participants			
	Name	Function	Presence
13	Fred Vossen	Senior Counsel to PwC	Amsterdam, Berlin, Frankfurt
14	Tine Delbare	Manager	Amsterdam, Berlin, Frankfurt
15	Jan Desmaretz	Manager	Amsterdam
16	Willem Trommels	Industry Expert	Amsterdam, Berlin

If successful,

- **Airport Area Development is an Economic and Job Engine for the region and**
- **an Airport Area Development Company can be money generating**

Findings :

- Communication, Cooperation and a Common Plan between stakeholders in Airport Area Development Plan is crucial
- Bundling of expertise and financing of all relevant players
- Integration in Airport Company versus separate Airport Area Development Company
 - A separate company allows for a total focus on area development and maximises the chances for success
- In case of a separate Airport Area Development, a good understanding with the airport operating company and other stakeholders is required.
 - Risk of internal competition is real
 - Clear definition of working area is vital

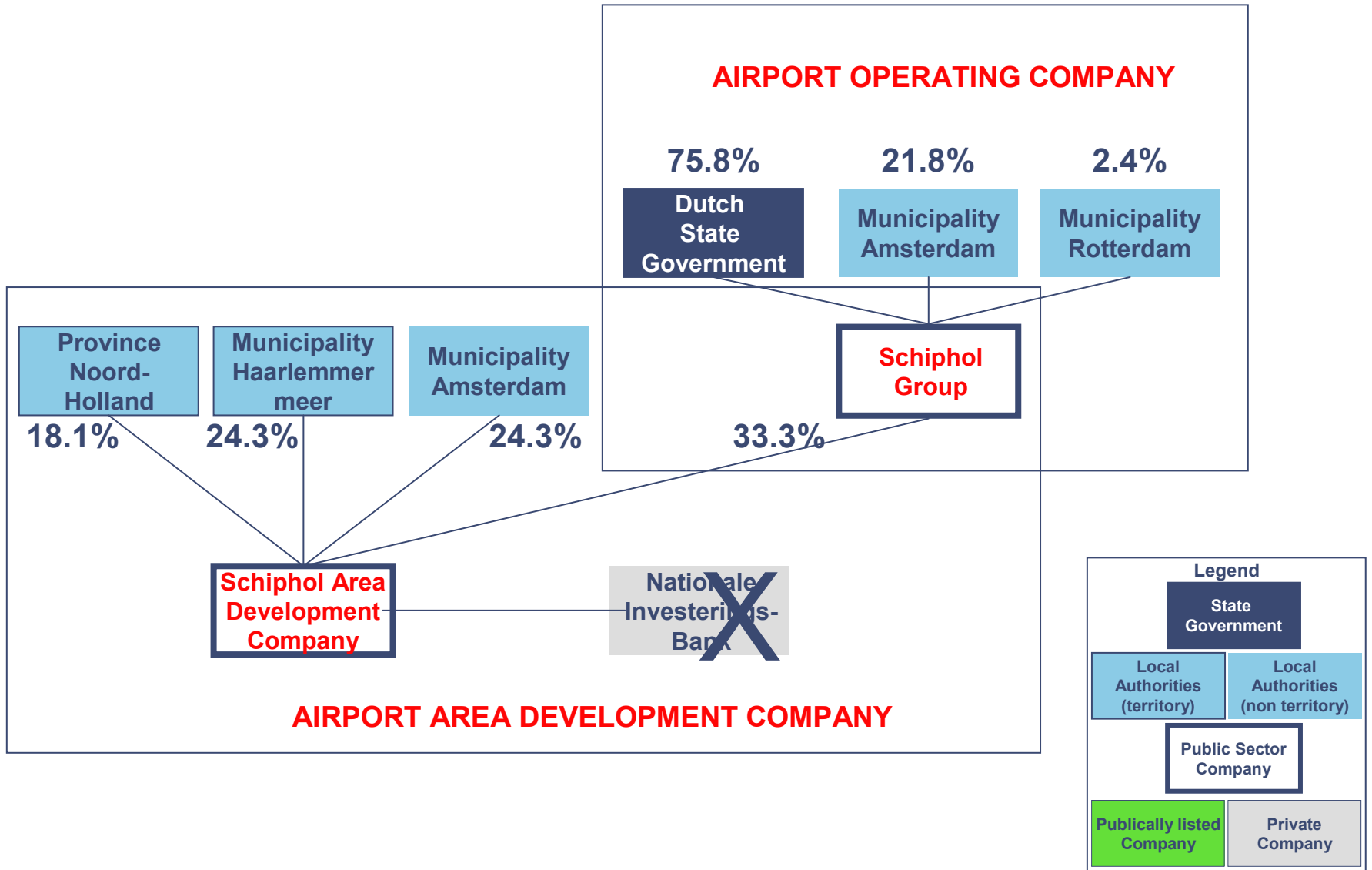
Findings :

- Shareholders :
 - Public shareholders are the standard and majority shareholders
 - Cooperation with airport operator is crucial
 - State Government is shareholder of the airport operating company
 - Local authorities are shareholder of the airport operating company and of the airport area development company
 - Participation of Municipalities where airport is located and surrounding areas is vital (win/win)
 - Involvement of the home carrier is an option
 - In general, private shareholders are difficult to accept seen the employment and value added implication of airport area development for the region but can be important in a start up phase for financing purposes
 - Cooperation with private parties with reference to specific capital expenditures can be envisaged

Findings :

- Typical activities of an airport area development company include :
 - Land acquisition
 - Development of business parks and office locations
 - International marketing of its own locations
 - Assistance to new international businesses in choosing their location in the airport region. Investors have a choice between :
 - purchasing land for development
 - a tailor made construction or
 - a lease contract
 - Park management
- Different options exist to fuel the airport area development company.
- Start up investments can be high with a long pay back time but income generation and dividend payments can be substantial over time.

Development Companies – Structure Amsterdam



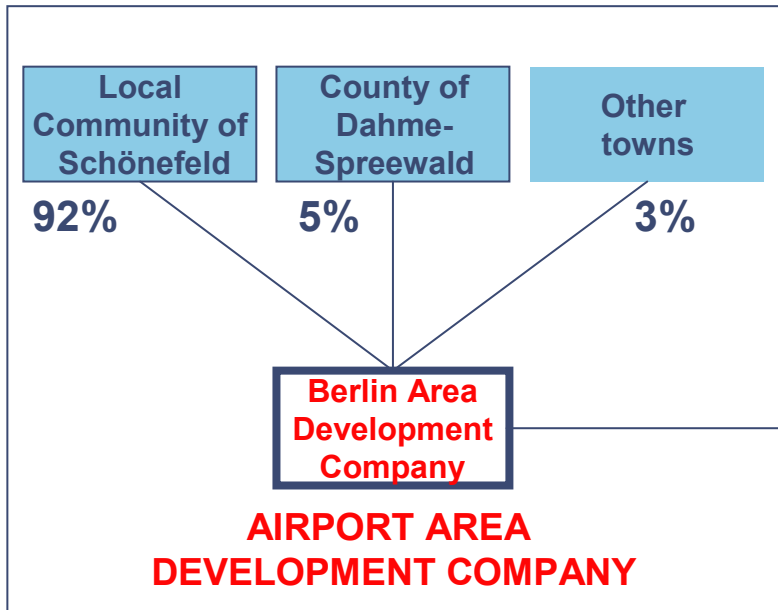
Development Companies – Structure Amsterdam

- **Amsterdam** has two separate entities :
 - for airport operations - Schiphol Group and
 - for airport area development - Schiphol Area Development Company -SADC-
- All public authority shareholders. The airport operator is shareholder of the airport area development company.
- Public shareholders have brought cash into the company as well as the appropriate planning and zoning of the area and also in a later stage land. At the time, the National Investment Bank also brought equity into the company as well as know how related to business planning.
- SADC is financed through the sale of land and external financing.
- The start up investment costs were high with a long pay back time.
- The income of SADC and the dividend payments to the shareholders are somewhat fluctuating depending on the business outlook, the amount of land that was acquired and brought to market.

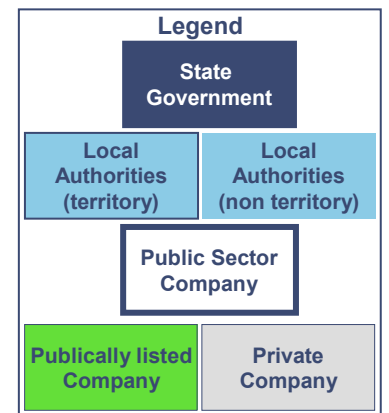
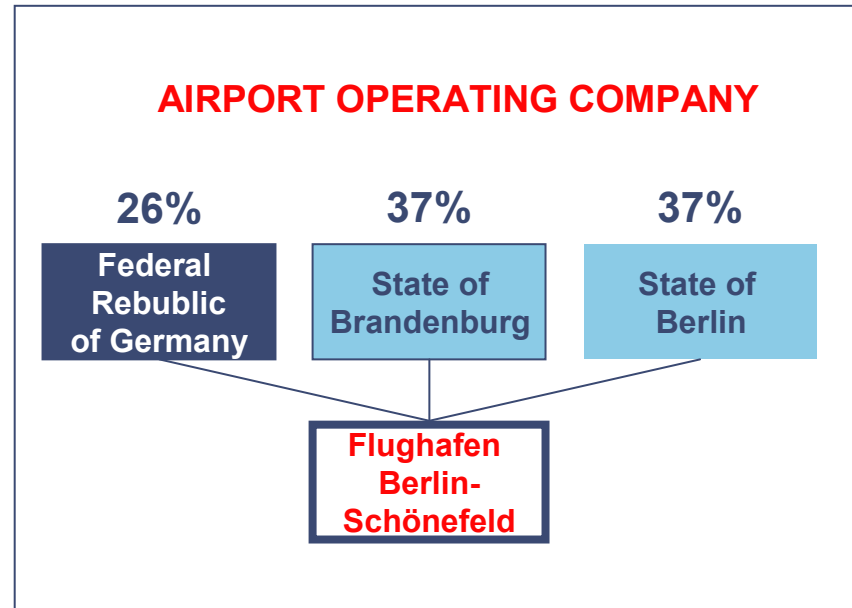
Development Companies – Structure Amsterdam

- Airport area development has been a huge success in Amsterdam. It took 20 years to reach the successful development that Schiphol is today.
- The scale of the development is strongly related to the importance of the airport as a hub. On the other hand, the airport area development in Schiphol has substantially influenced the development of Schiphol as a hub.
- SADC was founded in 1987, and although it was very successful (or maybe because it was very successful), the Schiphol Group has decided to set up its own real estate company in 1998. Schiphol Real Estate also develops, invests in and operates buildings in other airports than Schiphol.
- Certain level of internal competition between SADC and Schiphol Real Estate
 - General rule : Schiphol Real Estate responsible within airport fence, SADC outside airport fence
- Joint international marketing in order to minimise overlap and internal competition.

Development Companies – Structure Berlin



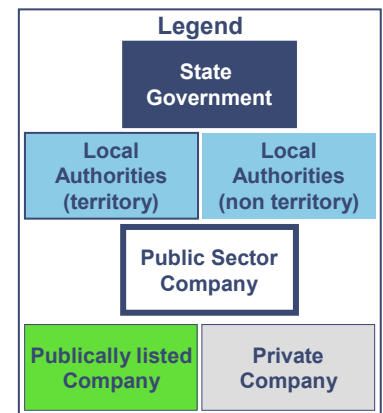
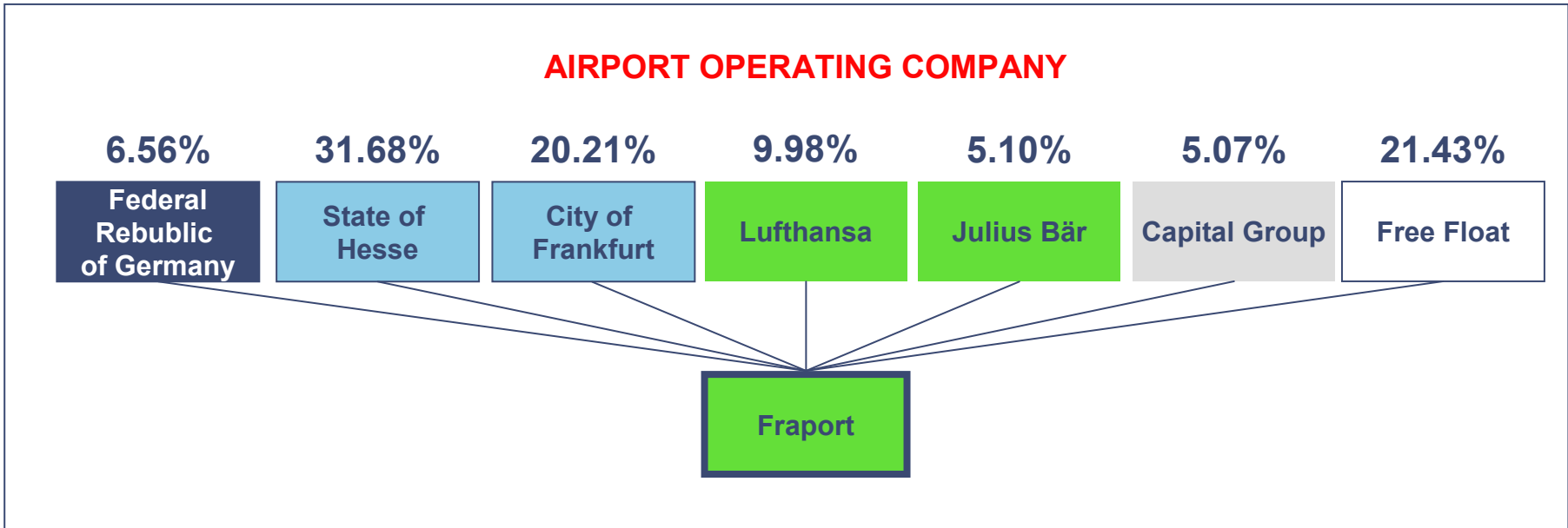
~~Hudson Investment Group~~



Development Companies – Structure Berlin

- **Berlin** has two separate entities
 - for airport operations – Flughafen Berlin Schönefeld - and
 - for airport area development – Berlin Area Development Company – BADC -
- The airport operator is not a shareholder of the airport area development company
- Internal competition is likely between the two entities. No cooperation at the moment.
- Private investor was politically unacceptable. BADC was restructured after first year of operation and is now 100% owned by local communities.
- All parties see the new airport as an economic and job engine for the region.
- BADC is fuelled through a budget allocation, not (yet) through sale of land.

Development Companies – Structure Frankfurt



Development Companies – Structure Frankfurt

- In **Frankfurt**, only one body is responsible for all activities concerning the airport.
- Fraport is a publically listed company with public and private partners, but the majority of shares is held by the local authorities.
- The home carrier (Lufthansa) is also a shareholder
- Only the City of Frankfurt is shareholder as a local authority, other Municipalities -e.g. Kelsterbach- are not involved in the airport :
 - Kelsterbach has attracted many logistics companies, and covers its own area development
 - Kelsterbach is now strongly against the plans of Fraport to extend the airport with a third runway (on the territory of Kelsterbach) and strongly hinders these plans.

Development Companies – Structure Frankfurt

- Fraport is responsible for real estate development within the airport fence, but is also involved in real estate initiatives outside the airport fence, together with other partners, both public (City of Frankfurt) and private.
- The focus of Fraport on airport area development is less significant compared to airports with a separate airport area development company. Compared to Schiphol, the airport area development in Frankfurt was never fully realised.

Employment and Value Added for the region

Findings :

- More than ever, **airports are economic engines** driving the economies in their surroundings and further afield. Airports constitute necessary infrastructure for a wide range of economic activities. The wider economic role is known as the catalytic impact. Access to markets and international transport links are regarded as absolutely essential to businesses making location decisions.
- Prospering airports not only **create jobs** at the airports themselves but also in the regions around them. Rule of thumb : 1 million passengers create 1,000 jobs directly. Adding the indirect and induced job creation : 3 to 4 times as many jobs. This is called the **multiplier effect** : every job at the airport creates other jobs somewhere else.
- The jobs at the airport cover the entire spectrum from unskilled labor to highly qualified senior managers. For airport area development, **availability of skilled labour** is key to success.
- Typically, the **labour force** at and around the airport is **highly international**.

Employment and Value Added for the region

- Schiphol :
 - takes 20 years to reach full development
 - job creation : 120.000 jobs (60.000 at airport site, 60.000 in surroundings)
 - 10 to 15% of the labour force is foreign
 - (Microsoft Schiphol : 40% foreign)
 - investments : 1,500 international companies
 - 800 ha developed land
- Municipality of Haarlemmermeer (where Schiphol is located):
 - 1985 : 25.000 inhabitants
 - 2007 : 150.000 inhabitants
 - New residential areas
 - Lowest unemployment rate of The Netherlands
 - High quality jobs; higher average income per person
 - But : cultural facilities, gastronomy and leisure sector are lagging behind

Employment and Value Added for the region

- Between 1980 and 2005, the number of people employed at Frankfurt Airport more than doubled from 30,000 to some 68,000.
 - The most important single employer at Germany's largest employment complex is Lufthansa : over 32,600 people at Frankfurt Airport alone
 - In second place is Fraport AG, which, including its subsidiaries, counts over 16,600 employees. 1 out of 4 employees is of foreign origin.
 - The remaining approx. 19,000 jobs are provided by the more than 500 companies and authorities also based at Frankfurt Airport.

Findings :

- **Joint International Marketing** of development company, airport, municipalities, home carrier and other relevant partners is the way to bundle expertise and money to attract foreign companies to the region.
- **Cooperation** with national investment promotion agency for international marketing (seminars, road shows).
- Marketing should be focussed on the creation and/or enhancement of strong **clusters**. The selection of the clusters should be based on the strengths of a region. A thorough understanding of the selected clusters is necessary to be successful.
- **Acceptance criteria** for companies which wish to locate close to the airport should be decided upon :
 - Value added for the region
 - Functional relation with the airport
 - None
- Inside airport fence no sale of land. Decision on **sale versus lease of land** in other parts of airport area has to be made.

Sales and Marketing

- **Joint Marketing** : SADC is pursuing its international marketing strategy for the Schiphol region through **Amsterdam Airport Area (AAA)**. AAA is a unique partnership between eleven **public and private partners** involved with the development of office and industrial parks at and around Amsterdam Airport Area, including parts of the City of Amsterdam. Through joint international marketing, promotion and acquisition, AAA aims to attract more international businesses to the region. Partners include : SADC (chairman), Schiphol Real Estate, Municipality of Amsterdam, Port of Amsterdam, Municipality of Haarlemmermeer, Municipality of Almere, Province of Noord-Holland, KLM, KFN, ING Real Estate and AM Vastgoed.
- **Marketing tools** include seminars (Asian market) and road shows (American market). At these events, members from SADC and the Municipality are present, together with a tax consultant and a logistics expert. Often together with the Netherlands Foreign Direct Investment Agency (NFIA), sometimes together with the Port of Rotterdam. AAA also has representatives in Tokio, Seoul and New York.

Sales and Marketing

- Although the marketing is a joint effort, **competition** may occur once an investor shows interest in the region. Opportunities may be offered to the investor by different members of AAA. Final deal making is done by partners separately.
- All partners contribute, budget almost 500,000€ per year.

Sales and Marketing

- Today, the attraction of FDI is not location driven, but **cluster driven**.
- A cluster is not just the presence of several companies of the same sector in a specific area. A cluster is defined by the interdependence of these companies and by the presence of related and supporting companies, branch organisations, universities and knowledge centres, specific service providers etc. Companies which are part of a cluster have advantages from their location, both related to qualitative aspects as cost items.
- Marketing strategy is focussed on the strengthening and/or creation of a cluster in the region so that the international competitive position of that region is increased.
- Close cooperation with selected clusters leads to a thorough understanding of their needs, both in terms of infrastructure as in terms of services and costs. Specific cluster related real estate concepts can be developed. E.g. design centre in Frankfurt.
- For Amsterdam, the cluster strategy of SADC is sponsored by the Ministry of Economic Affairs.

Sales and Marketing

- In Amsterdam, **acceptance criteria** exist for companies who wish to locate close to the airport (Amsterdam) :
 - Value added for the region
 - Functional relation with the airport and/or port

These rules exist but are not vigorously applied.

- In Frankfurt, it is not mandatory to do business with the airport to be able to locate close to the airport. In Berlin no criteria exist (yet).
- **Sale versus lease of land :**
 - Inside airport fence : no sale of land
 - Outside airport fence :
 - Lease : control (e.g. Park management) + long term more income
 - Sale : immediate income
 - Depends on availability
 - Municipality of Amsterdam : no sale of land
 - Municipality of Haarlemmermeer : acquisition of land possible

- Typical airport clusters are :

Logistics
Aerospace
Automotive
Consumer and business electronics
Banking and Finance
Insurance
Perishables
Life science
ICT
Optical instruments
Audio/video
Printing and Publishing
Fashion
Health
Security related activities
Design

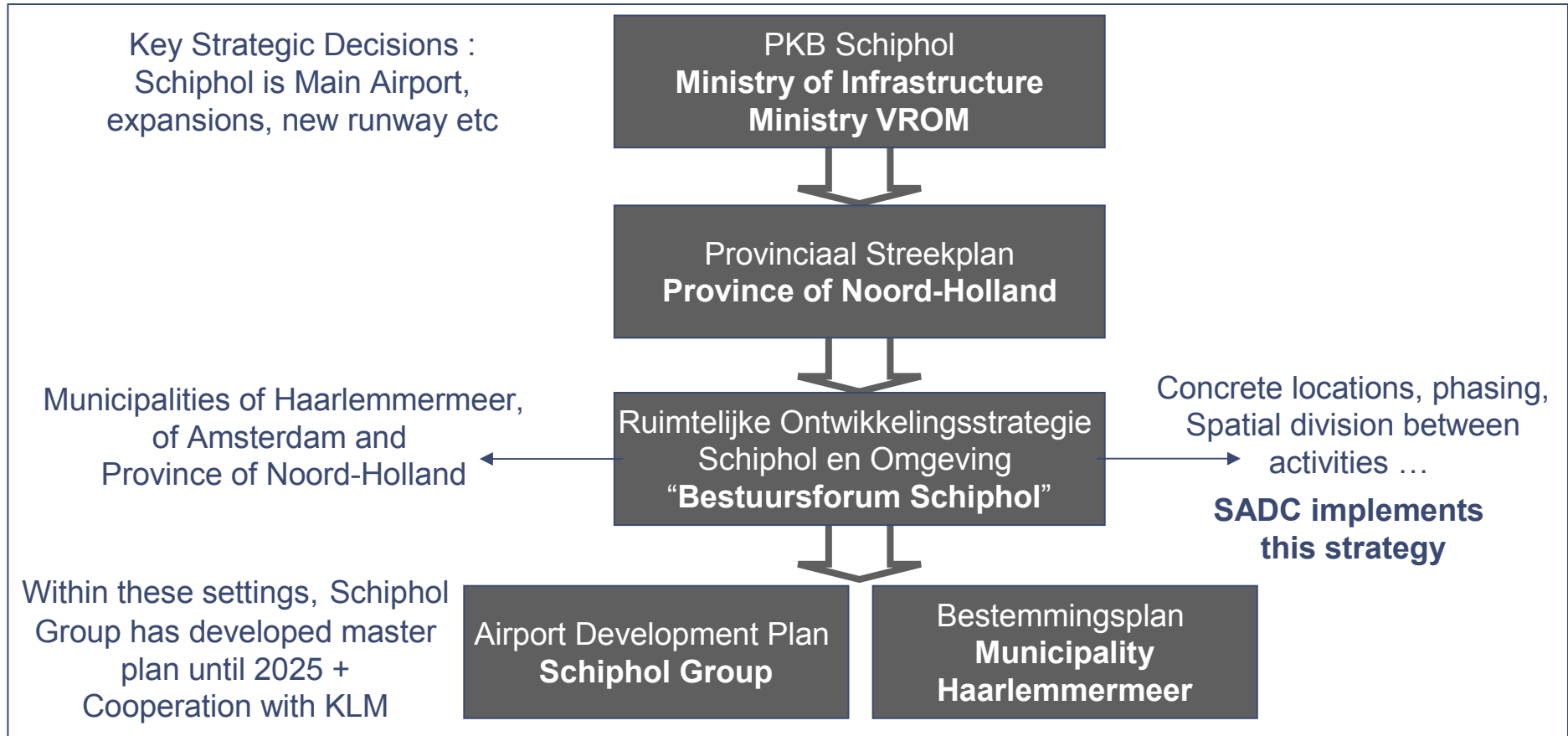
- Target clusters should be chosen in function of the strengths of a region.

Findings :

- **Overall Master planning** is performed by public authorities. An **integrated** master plan, inside and outside the airport fence, is key to success.
- The **Airport operator develops a master plan for airport area within fence** within the settings of the overall master plan. Incorporation of **vision of home carrier** is important for long term planning.
- **Key working area** of development company is 10km around airport. 30 to 35 km is the maximum for “proximity to airport”, or the equivalent of maximum 30 minutes driving time.

Master Planning

- Detail of best practice example Schiphol: General master plan by national authorities. This plan is further redefined by regional and local authorities:



- Special vehicle to decide on spatial development strategy of the airport and the surrounding area

Key Findings

- If successful, Airport Area Development is an **Economic and job Engine** for the region and an Airport Area Development Company can be **money generating**
- **Communication, Cooperation and a Common Plan** between stakeholders in Airport Area Development Plan is crucial
- A **separate, dedicated company** allows for a total focus on airport area development and maximises the chances for success
- A **majority of public shareholders** is the standard. Participation of **territory municipalities** is vital
- Cooperation with **airport operator** is crucial, internal competition should be avoided
- Participation of home carrier and non territory authorities is optional
- In general, **acceptance of private shareholders is low**, but cooperation can be considered for specific projects

Key Findings

- Typical **activities of an airport area development company** include :
 - Land acquisition
 - Development of business parks and office locations
 - International marketing of its own locations
 - Assistance to new international businesses in choosing their location in the airport region. Investors have a choice between :
 - purchasing land for development
 - a tailor made development or
 - a lease contract
 - Park management
- Different options exist to fuel the airport area development company.
- Start up investments can be high with a long pay back time but income generation and dividend payments can be substantial over time.

Key Findings

- **Joint international marketing** of all relevant partners is the way to bundle money and expertise in order to attract foreign direct investment to the region. Cooperation with national foreign direct investment agency for international marketing events is standard.
- Marketing should be focussed on the creation and/or enhancement of **strong clusters**. The selection of these clusters should be based on the strengths of the region. A thorough understanding of the selected clusters is necessary to be successful.
- An **integrated master plan**, inside and outside the airport fence, is key to success. Overall master planning is performed by public authorities. The Airport operator develops a long term master plan for the area within the airport fence and incorporates the vision of the home carrier.
- The key working area for airport development is the equivalent of maximum **30 minutes driving time**.
- **Sufficient availability of skilled labour** is key to success. Typically, the labour force is highly international.

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Purpose and Methodology

- The first stakeholder mapping was performed in July 2006. The situation in the Keflavik airport area is still under constant change.
- New stakeholders have appeared on the map. Some stakeholders have become less relevant whereas others show more interest in the future development.
- The new stakeholder mapping has allowed the team
 - to update the understanding of the situation,
 - to update the mission statement of the airport area development and
 - to gather input for Task 3, in which we select potential shareholders and define other relationships.
- The update of the stakeholder mapping was performed through
 - a workshop with the stakeholders,
 - interviews with stakeholders and
 - a meeting with the Ministries.

Purpose and Methodology

- The workshop involved the following participants :

Participants Workshop Task 2 : Update Stakeholder Mapping and Mission Statement	
Icelandic delegation	
Name	Function
1 Árni Sigfusson	Mayor Reykjanesbaer
2 Sigurdur Valur Ásbjarnarson	Mayor Sandgerdi
3 Oddny Hardardottir	Mayor Gardur
4 Kjartan Eiríksson	CEO KADECO
5 Bjorn Ingi Knútsson	Airport Director Keflavik Int. Airport
6 Thorgeir Pálsson	CEO Flugstodir (Icelandic Civil Aviation)
7 Höskuldur Ásgeirsson	CEO Leifur Eiríksson Terminal Ltd.
8 Stefan Jónsson	Director of Ter Leifur Eiríksson
9 Thordur H. Hilmarsson	CEO Invest in Iceland Agency
10 Einar H. Tómasson	Project Manager Invest in Iceland Agency
PwC Participants	
Name	Function
11 Fred Vossen	Senior Counsel to PwC
12 Tine Delbare	Manager
13 Jan Desmaretz	Manager

- Individual interviews with new stakeholders :
 - Kadeco
 - Flugstodir

Purpose and Methodology

- During a meeting with the different Ministries, the Permanent secretaries were asked about their interest in the Keflavik Airport Area Development project and their power and influence on this project :

Participants Presentation to Ministries		
Icelandic delegation		
	Name	Function
1	Halldor Arnason	Deputy Permanent Secretary of the Prime Minister's Office
2	Gretar Mar Sigurdsson	Permanent Secretary of the Ministry of Foreign Affairs
3	Ragnhildur Hjaltadottir	Permanent Secretary of the Ministry of Transport
4	Porhallur Arason	Deputy Permanent Secretary of the Ministry of Finance
5	Kristjan Skarphedinsson	Permanent Secretary of the Ministry of Industry
6	Sveinn Thorgeirsson	Chairman of Invest in Iceland Agency
7	Thordur H. Hilmarsson	CEO Invest in Iceland Agency
8	Einar H. Tómasson	Project Manager Invest in Iceland Agency
PwC Participants		
	Name	Function
9	Fred Vossen	Senior Counsel to PwC
10	Tine Delbare	Manager
11	Jan Desmaretz	Manager
12	Willem Trommels	Industry Expert

Purpose and Methodology

- The workshop, the interviews and the meeting with the Ministries resulted in the following output :
 - an **updated list of all relevant stakeholders** of the Keflavik Airport Area Development
 - an **understanding of the role** of the stakeholders, their **interest** in the development and their **power and influence** with regards to the future development of the area, summarized in a short profile per stakeholder.
 - an **updated mission statement.**

Stakeholder Identification

- The list of stakeholders of July 2006 was reviewed and resulted in the following updated list of relevant stakeholders :

Stakeholders identified July 2006
Public
Municipality of Reykjanesbaer Municipality of Sandgerdi Municipality of Gardur Invest in Iceland Agency US Military NATO Ministry of Foreign Affairs (Defense Department) Building and Planning Committee Civil Aviation Administration Keflavik Airport Leifur Eiriksson Center Other Ministries
Private
Icelandair AVION Group Airport Associates Other private companies Private land owners



Updated stakeholders list March 2007
Public
Municipality of Reykjanesbaer Municipality of Sandgerdi Municipality of Gardur Keflavik International Airport Authority Leifur Eiriksson Air Terminal Ltd KADECO Building and Planning Committee Prime Minister's Office Ministry of Foreign Affairs (Defense Department incl NATO) Ministry of Transport Ministry of Industry Ministry of Finance Invest in Iceland Agency Flugstodir City of Reykjavik
Private
Icelandair Hf. Eimskipafélag Íslands Airport Associates Other private companies Private land owners

- A profile per stakeholder was composed :

Municipality of Reykjanesbaer

- Reykjanesbaer is located on the Eastern part of the Reykjanes peninsula, close to the airport and has 11.237 inhabitants.
- The Municipality of Reykjanesbær is made up of the towns Keflavík, Njarðvík and Hafnir. The municipality was created in 1995 when the inhabitants of the three towns voted to merge them into one. Of the three towns that make up the municipality, Keflavík is the largest, while Hafnir is tiny and some 10 kilometers distant. Keflavík and Njarðvík were originally distinct towns but gradually grew together over the course of the latter half of the 20th century, until the only thing separating them was a single street. The northern side of the street belonged to Keflavík and the southern side to Njarðvík.
- Around 51% of the Agreed Area is located within Reykjanesbaer's boundaries including the current military zone at the airport.
- Also located in the Municipality of Reykjanesbaer is the deep-water harbour at Helguvík, originally constructed as an oil terminal for the nearby NATO base. Helguvík is the region's largest port facility and adjoins a 120-hectare expandable industrial site.
- Reykjanesbaer also lost its fishing quotas to other areas. The city has however other activities such as a sports academy, a large hospital, a lot of airport related workshops, hotels, a distant learning centre, fish processing companies etc. A new aluminium plant is expected to locate in the harbour area.
- Together with the Municipalities of Gardur and Sandgerdi and the Invest in Iceland Agency, the Municipality of Reykjanesbaer is determined to seek future development opportunities for the area surrounding the Keflavík Airport.

Municipality of Sandgerdi

- Sandgerdi is located on the western side of Reykjanes peninsula with 1.538 inhabitants.
- Around 40% of the Agreed Area is located within Sandgerdi's boundaries, including the current civil zone at the airport with the Leifur Eiriksson International Air Terminal. The Rockville area is also located within Sandgerdi's boundaries.
- Sandgerdi used to be one of the country's major fishing communities, but recently, the private fishing companies have sold their quotas to companies located outside Sandgerdi. As such, a lot of industrial buildings are empty at the moment (warehouses for the fishing industry).
- New housing developments take place at Sandgerdi and the Municipality has the intention to create growth for the community.
- Together with the Municipalities of Gardur and Reykjanesbaer and the Invest in Iceland Agency, the Municipality of Sandgerdi is determined to seek future development opportunities for the area surrounding the Keflavík Airport.

Municipality of Gardur

- Gardur is located in the Northern part of the peninsula with 1.377 inhabitants.
 - Around 9% of the Agreed Area is located on within the boundaries of the Municipality of Gardur.
 - A new aluminium plant is expected to locate in the harbour area.
 - Together with the Municipalities of Sandgerdi and Reykjanesbaer and the Invest in Iceland Agency, the Municipality of Gardur is determined to seek future development opportunities for the area surrounding the Keflavik Airport.
-

Keflavik International Airport Administration

- All domestic Airports in Iceland, except some privately owned landing places, are operated by Flugstodir under the jurisdiction of the Ministry of Transport, Communications and Tourism. The Keflavik International Airport is however (still) under the Ministry of Foreign Affairs.
 - The Keflavik International Airport Administration is responsible for the administration and operation of the civilian airport under the authority of the Ministry for Foreign Affairs.
 - The Airport Director is a representative of the Board of the Building and Planning Committee.
 - The Keflavik International Airport Administration has recently taken over some of the responsibilities from the US Navy which has lead to a tripling of the headcount. Activities involved are the fire department, maintenance of the runways, electricity and snow removal.
-

Leifur Eiriksson International Air Terminal Ltd

- Established in May 2000, Operating licence November 2000
 - Shareholder is the Icelandic Treasury;
the Icelandic Foreign Minister manages the Treasury's shareholding
 - Purpose : operation, maintenance and development of the Leifur Eiriksson Air Terminal (Passenger terminal), incl duty-free shops at Keflavik airport and related activities.
 - Objectives : to provide excellent services to air passengers at all times. Also, the purpose of the assignment is to assign responsibility to the company for the administration and operation of commercial trade in duty-free goods at Keflavik airport, as well as for other types of operation inherent in this role.
-

KADECO

- The Law of December 20, 2006 has divided the former agreed area into three parts : zone A, the aviation area, zone B, the security zone and zone C, the zone for civil development. The Minister for Foreign Affairs is the supervising authority, including planning issues, until the Prime Minister issues a statement to the effect that the area , in part or wholly, has been taken for other use.
- KADECO acts on behalf of the government for all issues regarding zone C and for some facilities related to zone A.
- KADECO has a service agreement with the Ministry of Finance to operate and lead the future planning and conversion of this area. The goal is to allocate the real estate of the area for prosperous civil use with a maximal positive community effect and a minimum of negative effects. The contract has a length of 4 years and is renewable.
- Main tasks include developing and changing the area, planning, marketing, investigate the scope of soil contamination and arrange clean up, study the competitiveness of the area, register facilities according to Icelandic law and selling and renting real estate.
- For the first year of operation, KADECO receives a loan. The first two years, a 100% commission is allowed. After this period, the government will decide on the financing.

Building and Planning Committee

- The Building and Planning Committee is part of and controlled by the Defence Office of the Ministry of Foreign Affairs. All decisions made by the Planning Committee have to be approved by the Defence Office.
- Its task is to execute planning and construction and to handle environmental issues at Area A and B.
- The Building and Planning Committee has representatives of the Environmental Agency, the Central Planning Agency, the Ministry of Foreign Affairs and the Airport Director and the Director of the Association of Municipalities.

Prime Minister's office

- The Prime Minister's office coordinates activities for which several ministries are responsible
 - The Prime Minister is responsible for KADECO.
-

Ministry of Foreign Affairs - Defense Department

- At the moment, the former agreed area is still under jurisdiction of the Ministry of Foreign Affairs, Department of Defense, as was the case when the US Navy was still in Iceland. The former agreed area has been divided in three zones : zone A, the aviation area, zone B, the security zone and zone C, the zone for civil development. It is expected that the responsibility for zone A and zone C will be transferred to another ministry in the near future.
- The Building and Planning Committee is part of and controlled by the Defence Office of the Ministry of Foreign Affairs. All decisions made by the Planning Committee have to be approved by the Defence Office.
- The Keflavik International Airport Administration and the Leifur Eiriksson International Air Terminal also work under the jurisdiction of the Ministry of Foreign Affairs.

Ministry of Transport

- All domestic Airports in Iceland, except some privately owned landing places, are operated by Flugstodir under the jurisdiction of the Ministry of Transport, Communications and Tourism.
- It is expected that zone A and zone C of Keflavik International airport will be put under the jurisdiction of the Ministry of Transport in the near future. The Keflavik International Airport Administration and Leifur Eiriksson Terminal will probably also be transferred to the Ministry of Transport, Communication and Tourism. However, these are political decisions and will be taken after the elections.

Ministry of Industry

- The Ministry of Industry is amongst others responsible for economic development and for the attraction of FDI to Iceland. The focus is no longer on power intensive companies, but on other activities. As such this ministry is very interested in the development of the area around Kevavik airport.
- The Invest in Iceland Agency is run by the Trade Council of Iceland and the Ministry of Industry.
- The Centre of Innovation is composed of the Building and Research Institute and the Technological Institute of Iceland and is also under the jurisdiction of the Ministry of Industry.

Ministry of Finance

- The Ministry of Finance is the owner of the land within the former agreed area.
- KADECO is the operator of this land and the buildings on it.
- It has not been decided whether parts of the land will be returned to the municipalities. There was however a strategic decision that the land will never be sold, but given into concession.

The Invest in Iceland Agency

- The Invest in Iceland Agency is run by the Trade Council of Iceland and the Ministry of Industry and Commerce.
- The Agency functions as a “one-stop shop” for foreign investors and provides information on investment opportunities in Iceland and the business environment. The Agency’s team provides free of charge information and expert confidential service on all aspects of investments, arranges site visits and plans contacts with local authorities as well as local business partners and professional consultants.
- The Agency is responsible for the international marketing of Iceland as a location for internationally mobile investments.
- Together with the Municipalities of Gardur, Sandgerdi and Reykjanesbaer, the Invest in Iceland Agency is determined to seek for future development opportunities for the area surrounding the Keflavik Airport.

Flugstodir/ISAVIA

- A reorganisation of the Icelandic Civil Aviation Administration (ICAA) took effect at the end of 2006. This resulted in the establishment of a new limited shareholding company, ISAVIA or Flugstodir, which took over responsibility for the provision of air navigation services and airport operations. The ICAA retains the responsibility for safety regulation as well as assuming a more assertive role in economic regulation.
- All domestic airports in Iceland, except some privately owned landing places, are operated by Flugstodir under the jurisdiction of the Ministry of Transport, Communications and Tourism. Flugstodir is wholly owned by the Icelandic State.
- It is possible that Flugstodir’s responsibility will be extended to all airports in Iceland in view of the fact that Keflavik international Airport no longer serves as a military facility. This is a political decision which will be taken after the elections.

City of Reykjavik

- The City of Reykjavik has not been interviewed yet, because they have not been involved in the project until now. Their position towards the future development of the area is thereforunknow.

Icelandair

- Icelandair is a part of the Icelandair Group, a wholly owned subsidiary of the FL Group investment company. Icelandair Group is a holding company with 10 independent subsidiaries, focused on the airline and tourism sectors.
- The largest operating unit of Icelandair group is its international airline Icelandair, which in addition to its own route network handles flight operations for sister companies Loftleidir and Icelandair Cargo.
- Icelandair is an airline and travel services company serving Europe and North America via their hub at Keflavík, Iceland. Icelandair currently serves 23 gateways in the US and Europe.

Hf. Eimskipaélag Islands

- Hf. Eimskipaélag Islands is a leading investment company, focused on global air, land and sea transportation solutions worldwide.
- Hf. Eimskipaélag Islands is one of the largest companies in Iceland and the fourth biggest company in the Icelandic Stock Exchange.
- Hf. Eimskipaélag Islands is formed of three business divisions: Aviation Services, Charter and Leisure, and Shipping and Logistics. Aviation Services is represented by Air Atlanta Icelandic, Avia Technical Services, Avion Aircraft Trading and SouthAir. Charter and Leisure is represented by Excel Airways Group and Star Airlines. The Shipping and Logistics division is represented by Eimskip.
- On 1 January 2005, Air Atlanta Icelandic and Islandsflug merged under the name Air Atlanta Icelandic. Air Atlanta Icelandic leases aircraft on an ACMI (Aircraft, Crews, Maintenance, and Insurance) basis to airlines needing extra capacity. Air Atlanta is registered and headquartered in Iceland, a member of the pan-European Joint Aviation Authorities.

Airport Associates

- Airport Associates is an independent ground handling service company, with headquarters at Keflavik Airport, Iceland.
- The company operates from its offices and cargo terminal facilities at the airport, which is located next to the passenger terminal ramp.

Other private companies

- Other private companies have not been interviewed, so their position towards the future development of the area is unknown.

Private Land owners

- A part of the Agreed Area, a site of 147 hectares land around the former radar site at Rockville belongs to a private party. This land is currently leased by the Ministry of foreign affairs.
- The private land owners have not been interviewed, so their position towards the future development of the area is unknown.

Stakeholder Understanding – Outstanding Issues

- The situation in the Keflavik airport area is still under constant change.
- At the moment, the former agreed area is still under jurisdiction of the Ministry of Foreign Affairs, Department of Defense, as was the case when the US Navy was still in Iceland. It is expected that the responsibility of the Airport area (except for the security zone) will be transferred to another ministry in the near future, most probably the Ministry of Transport.
- Another issue is the fact that a merger between the Keflavik International Airport Administration and the Leifur Eiriksson International Air Terminal is likely in the near future. In most best practice airports, the airport authority and the passenger terminal operator are one and the same company. There seems to be an agreement in Keflavik on this matter, but not on the way this will be implemented. This is a political decision, but two main options have been mentioned :
 - a new, financially independent company which would report directly to the Ministry of Transport or
 - a new company, a daughter of Flugstodir, which would function as part of the multi airport system in Iceland.

Stakeholder Understanding – Outstanding Issues

- Flugstodir operates all domestic airports in Iceland under the jurisdiction of the Ministry of Transport. It is possible that Flugstodir's responsibility will be extended to all airports in Iceland in view of the fact that Keflavik international airport no longer serves as a military facility. This is a political decision which will be taken after the elections.
- The future role of the Building and Planning Commission is unclear and is also subject to political decisions. The Building and Planning Committee is part of and controlled by the Defense Office of the Ministry of Foreign Affairs. It could be that they will continue to play a role in relation to the planning of Area A and Area B.
- The Ministry of Finance is the owner of the land within the former agreed area. It has not been decided whether parts of the land will be returned to the municipalities.

"The purpose of the development of the area surrounding Keflavik international airport is to bring sustainable growth and well paid jobs requiring a strong educational level to the Keflavik airport region, its communities and beyond.

The public authorities - acting through one entity - will seize the opportunity to achieve this mission. The aim is to make optimal use of the existing infrastructure complemented with new investment according to best available technologies and architecture and preferably return to airport."

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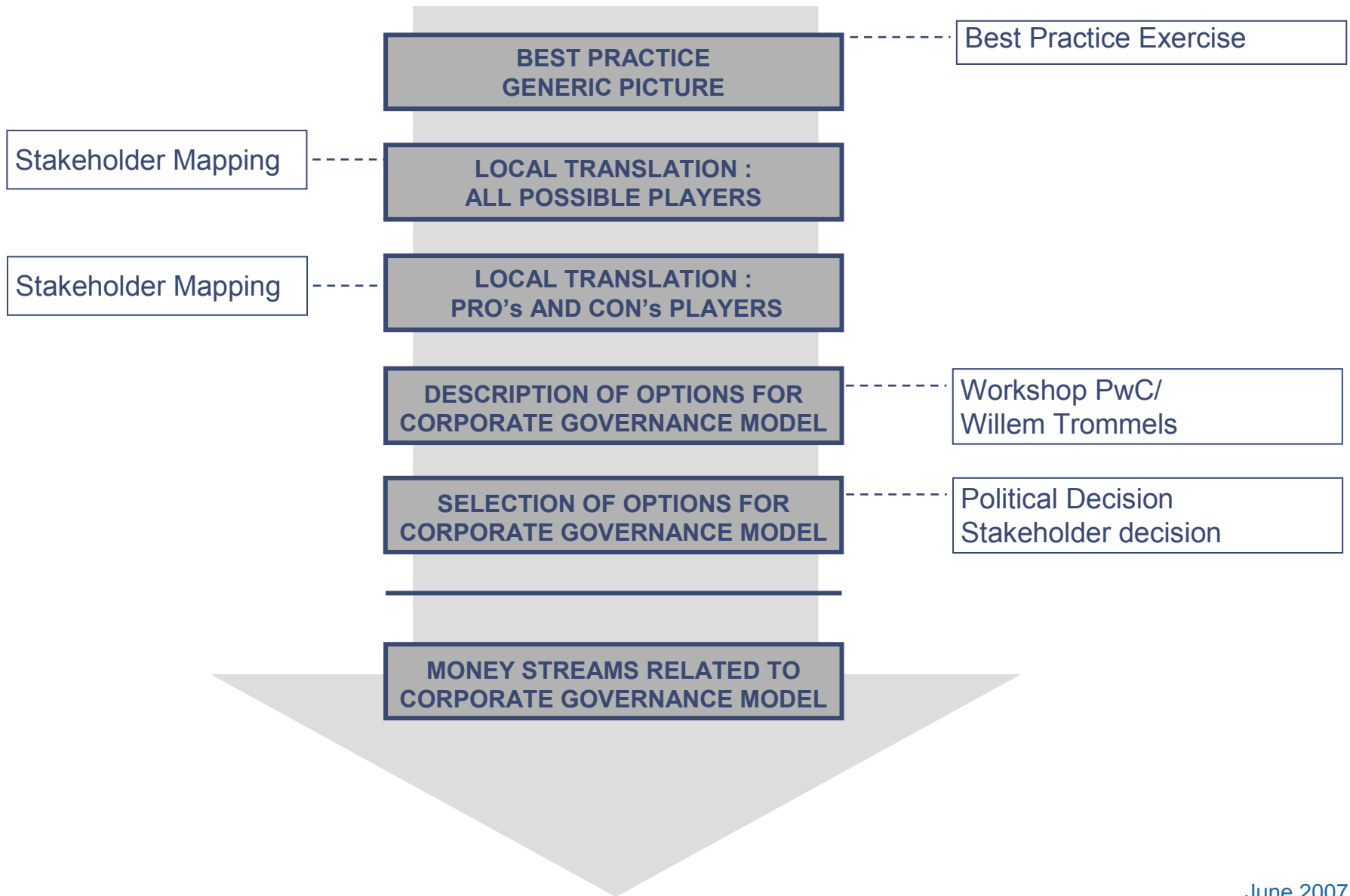
**TASK 6 : MONEY STREAMS RELATED TO
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**TASK 7 : MARKET AND COMPETITIVE
ANALYSIS KEY CLUSTERS**

Purpose and Methodology

- A limited number of options for the corporate structure of the Keflavik Airport Area Development Organisation have been developed.
- All findings from the best practice study will be translated to the local situation in Keflavik taking into account the results from the stakeholder mapping.
- Potential shareholders and other relationships will be defined.

Purpose and Methodology



Best Practice - Choices

- Based on the Best Practice benchmark, we have selected a number of basic principles regarding the potential options for the corporate governance structure of the Keflavik Airport Area Development Company :
 - A separate company allows for a total focus on area development and maximises the chances for success.
 - The development company will have public shareholders. This is also in line with the objectives mentioned in the mission statement.
 - Cooperation with the airport operator is crucial.
 - Participation of municipalities where airport area is located is vital.
 - It is also an important strategic issue to incorporate the rights to the land into the airport area development company as well as the appropriate planning and zoning of the area.
 - Participation of home carrier and non territory authorities is optional
 - Acceptance of private shareholders is low, seen the employment and value added implication of airport area development for the region

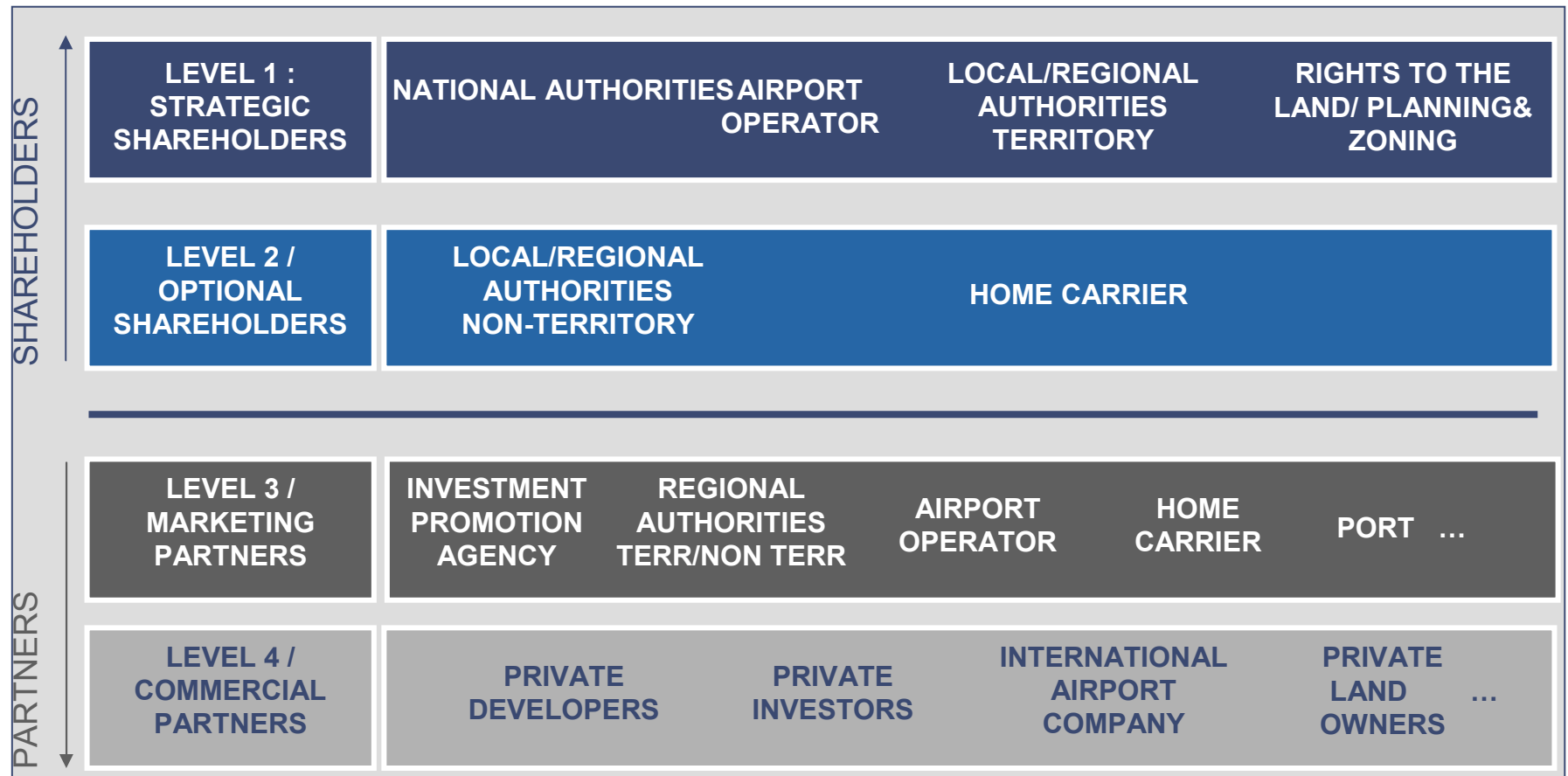


Best Practice – Generic picture

- Based on our best practice research, we have learned that there are different levels of shareholders and partners which can be involved in the airport area development company :
 - **Strategic shareholders** which are vital for the success of the new company
 - **Optional shareholders** which can provide added value to the company
 - **Marketing partners** with whom a joint international marketing plan can be developed to bundle money and expertise in order to attract foreign direct investment to the region
 - **Commercial partners**, mostly private partners with whom cooperation can be considered in relation with specific capital expenditures



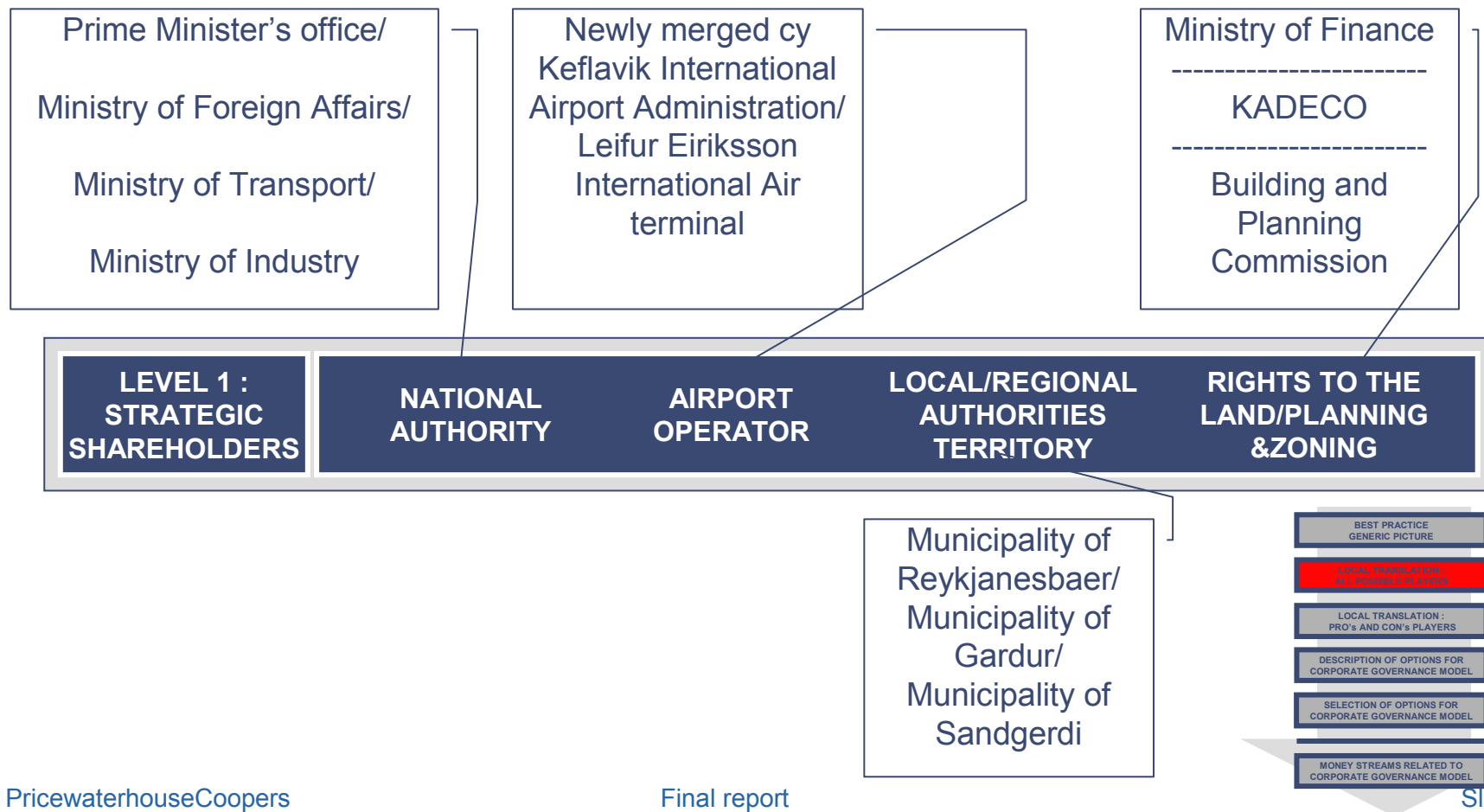
Best Practice – Generic picture



- BEST PRACTICE
CORPORATE PARTNERS
- LOCAL TRANSLATION :
ALL POSSIBLE PLAYERS
- LOCAL TRANSLATION :
PRO'S AND CON'S PLAYERS
- DESCRIPTION OF OPTIONS FOR
CORPORATE GOVERNANCE MODEL
- SELECTION OF OPTIONS FOR
CORPORATE GOVERNANCE MODEL
- MONEY STREAMS RELATED TO
CORPORATE GOVERNANCE MODEL

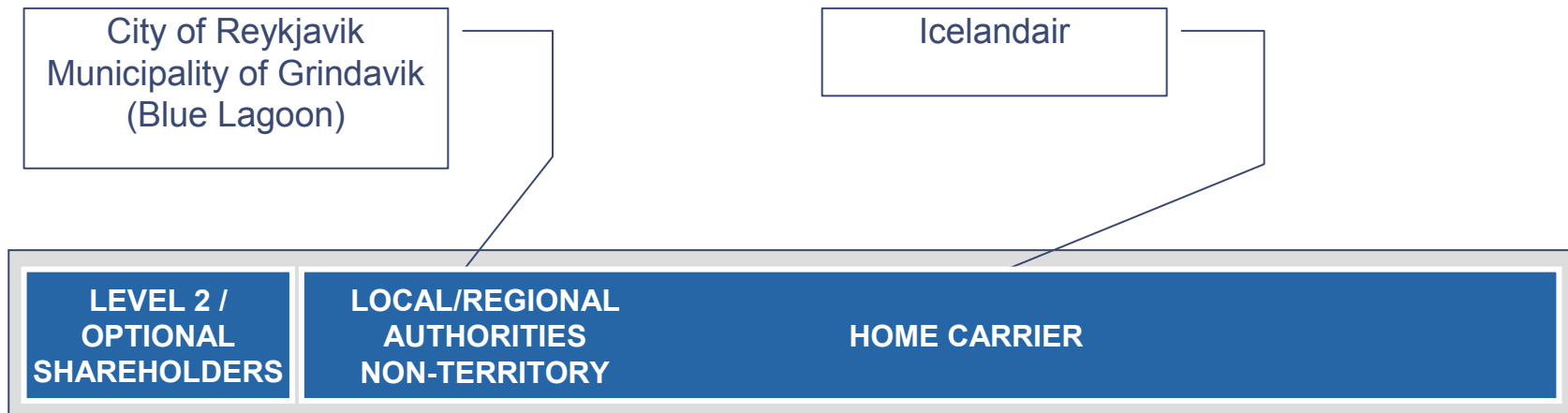
Local Translation : All Players

- Strategic shareholders** include the national authorities, the airport operator and the territory local authorities (the authorities on which land the airport area is located). It is also an important strategic issue to incorporate the rights to the land into the airport area development company as well as the appropriate planning and zoning of the area .



Local Translation : All Players

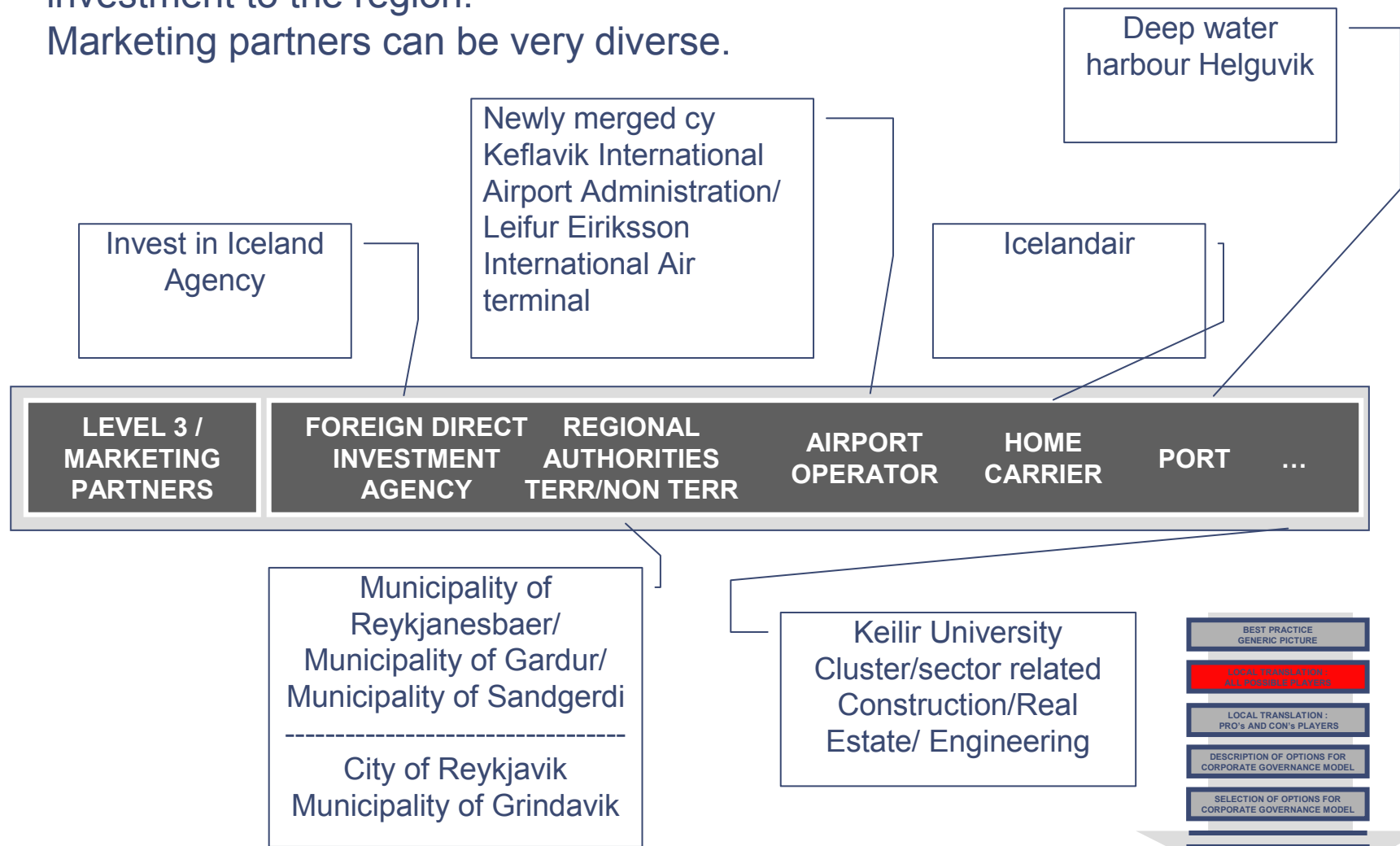
- The home carrier and non territory local authorities are **Optional shareholders.**



- BEST PRACTICE GENERIC PICTURE
- LOCAL TRANSLATION ALL POSSIBLE PLAYERS**
- LOCAL TRANSLATION : PRO's AND CON's PLAYERS
- DESCRIPTION OF OPTIONS FOR CORPORATE GOVERNANCE MODEL
- SELECTION OF OPTIONS FOR CORPORATE GOVERNANCE MODEL
- MONEY STREAMS RELATED TO CORPORATE GOVERNANCE MODEL

Local Translation : All Players

- **Marketing partners** with whom a joint international marketing plan can be developed to bundle money and expertise in order to attract foreign direct investment to the region.
- Marketing partners can be very diverse.



- BEST PRACTICE GENERIC PICTURE
- LOCAL TRANSLATION ALL POSSIBLE PLAYERS**
- LOCAL TRANSLATION : PRO'S AND CON'S PLAYERS
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- SELECTION OF OPTIONS FOR CORPORATE GOVERNANCE MODEL
- MONEY STREAMS RELATED TO CORPORATE GOVERNANCE MODEL

Local Translation : All Players

- **Commercial partners**, mostly private partners with whom cooperation can be considered in relation with specific capital expenditures
- Commercial partners are project related and therefore have to be decided upon on an ad hoc basis



Local Translation – Pro’s and Con’s of Players

- Advantages and disadvantages per player
- Value added the players can offer to the development company and the affinity they have towards the future activities of the development company.

Potential shareholders Keflavik Airport Area Development Company		
	Advantages for KADC	Disadvantages for KADC
Prime Minister's office	- Ultimate decision power	- Mix of social and commercial objectives (neutrality)
Ministry of Transport	- Future responsibility airport	- Mix of social and commercial objectives (neutrality) - Potential conflict of interest re current taxation system to fund the domestic airport instead of focus on the development of Keflavik airport and its surrounding area
Ministry of Finance	- Owner of the land	- Mix of social and commercial objectives (neutrality) - No operational knowledge re airport area development - Potential conflict of interest re current taxation system to fund the domestic airport instead of focus on the development of Keflavik airport and its surrounding area

Local Translation – Pro’s and Con’s of Players

- Advantages and disadvantages per player
- Value added the players can offer to the development company and the affinity they have towards the future activities of the development company.

Potential shareholders Keflavik Airport Area Development Company		
	Advantages for KADC	Disadvantages for KADC
Ministry of Industry	<ul style="list-style-type: none"> - Responsible for the attraction of foreign direct investment - Good sector knowledge 	<ul style="list-style-type: none"> - Mix of social and commercial objectives (neutrality)
Ministry of Foreign Affairs (Defense)		<ul style="list-style-type: none"> - No relevant relationship between the tasks of this Ministry and the tasks of the airport area development company
Municipalities	<ul style="list-style-type: none"> - Involvement = cooperation - Highly committed and ambitious to make the development a succes 	<ul style="list-style-type: none"> - Lack of international experience - 3 municipalities, internal competition - Maybe other municipalities should be involved from Sudernes and the Capital Region
Building and Planning Commission	<ul style="list-style-type: none"> - Experience with the area and planning and building regulations 	<ul style="list-style-type: none"> - Lack of international experience - No authority over total area

Local Translation – Pro’s and Con’s of Players

- Advantages and disadvantages per player
- Value added the players can offer to the development company and the affinity they have towards the future activities of the development company.

Potential shareholders Keflavik Airport Area Development Company		
	Advantages for KADC	Disadvantages for KADC
Flugstodir		<ul style="list-style-type: none"> - No relevant relationship between the tasks of Flugstodir and the tasks of the airport area development company - Potential conflict of interest re current taxation system to fund the domestic airport instead of focus on the development of Keflavik airport and its surrounding area
Airport operator (NewCo)	<ul style="list-style-type: none"> - Involvement = commitment of key player - Avoidance of internal competition - Network 	<ul style="list-style-type: none"> - 2 players at the moment. An efficient, merged organisation is a precondition
KADECO	<ul style="list-style-type: none"> - Certain parts of mission statement are equal - Indirect input of land - Experience with the area 	<ul style="list-style-type: none"> - Temporary organisation - Have other responsibilities apart from the attraction of inward investment plus priority of tasks may be different - Conflicts of interest may arise
Icelandair	<ul style="list-style-type: none"> - Network, marketing - International expertise 	<ul style="list-style-type: none"> - Private player - Limited logistics activities

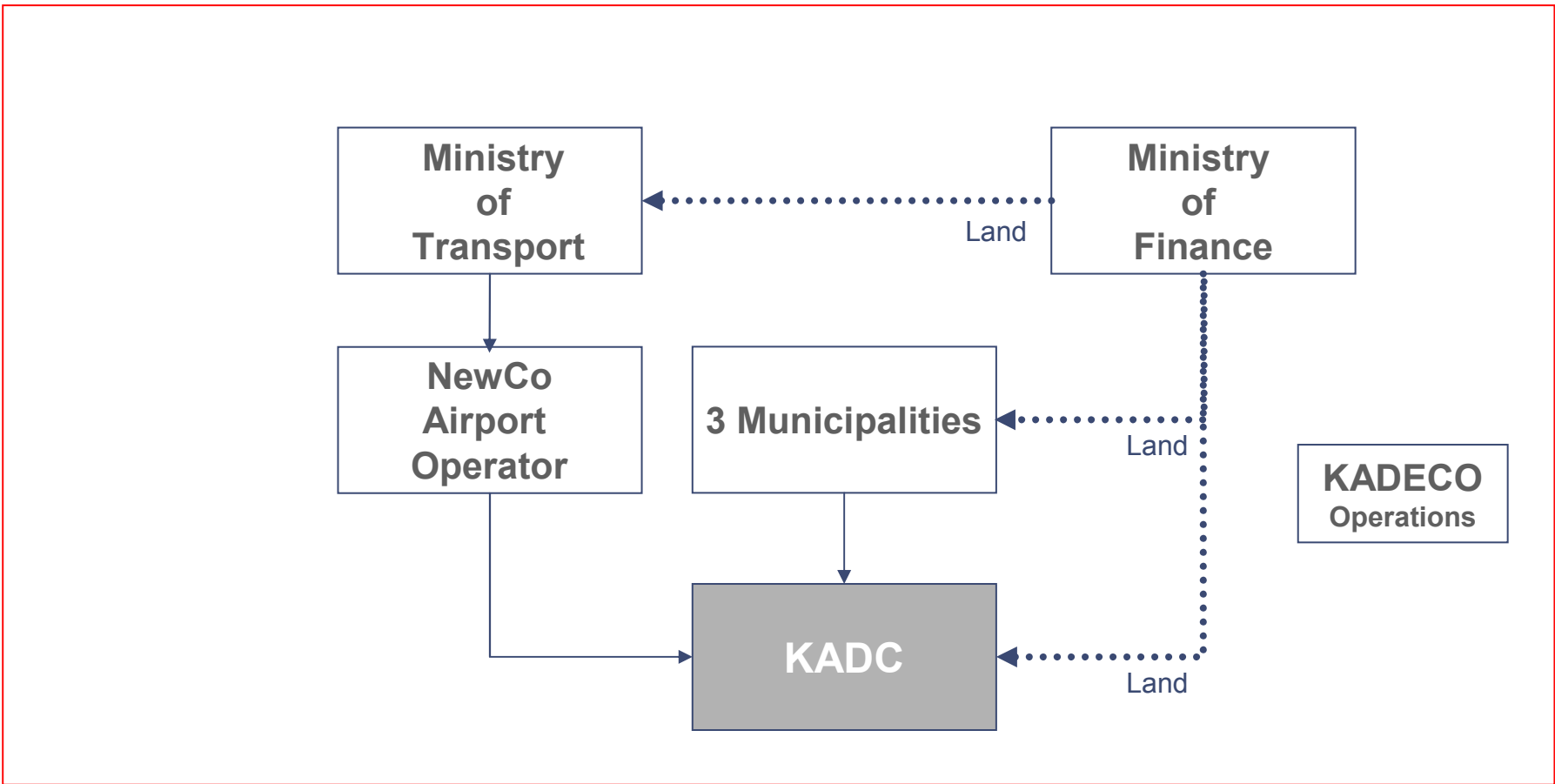
Local Translation : Selection of Shareholders

- The number of shareholders should be limited.
- Many players are currently active in the Keflavik Airport Area. Shareholders therefore have to be selected on the basis of the value added they can offer to the development company and the affinity they have towards the future activities of the development company.
- Preferably, one Ministry should take responsibility for the future Keflavik Area Development Company.
 - At the moment, more than one Ministry is involved in the Keflavik area and it remains unclear which Ministry will be the leading Ministry in this matter. From a content point of view, both the Ministry of Transport and the Ministry of Industry are relevant. The Prime Minister's office is also an option.
 - Also, the Ministry of Finance is the owner of the land. It has not been decided whether parts of the land will be returned to the municipalities.
- Certain parts of the mission statement of KADECO are equal to the one of the new Airport Area Development Company. However, KADECO also has other responsibilities apart from the attraction of inward investment and the priority of tasks may be different.

Local Translation : Selection of Shareholders

- Cooperation with the airport operator is crucial. An efficient airport operator is a precondition for success. A merger between the Keflavik International Airport Administration and the Leifur Eiriksson International Air Terminal is likely in the near future. In best practice airports, the airport authority and the passenger terminal operator are one and the same company. There seems to be an agreement in Keflavik on this matter, but not on the way this will be implemented. Two main options have been mentioned :
 - a new, financially independent company which would report directly to the Ministry of Transport or
 - a new company, a daughter of Flugstodir, which would function as part of the multi airport system in Iceland.
- Potential conflict of interest arises with current taxation system to fund the domestic airports instead of a focus on the development of Keflavik airport and its surrounding area (multi airport system).
- There is no relevant relationship between the tasks of Flugstodir and the tasks of the Airport Area Development Company.

Corporate Governance Structure – Preferred Option

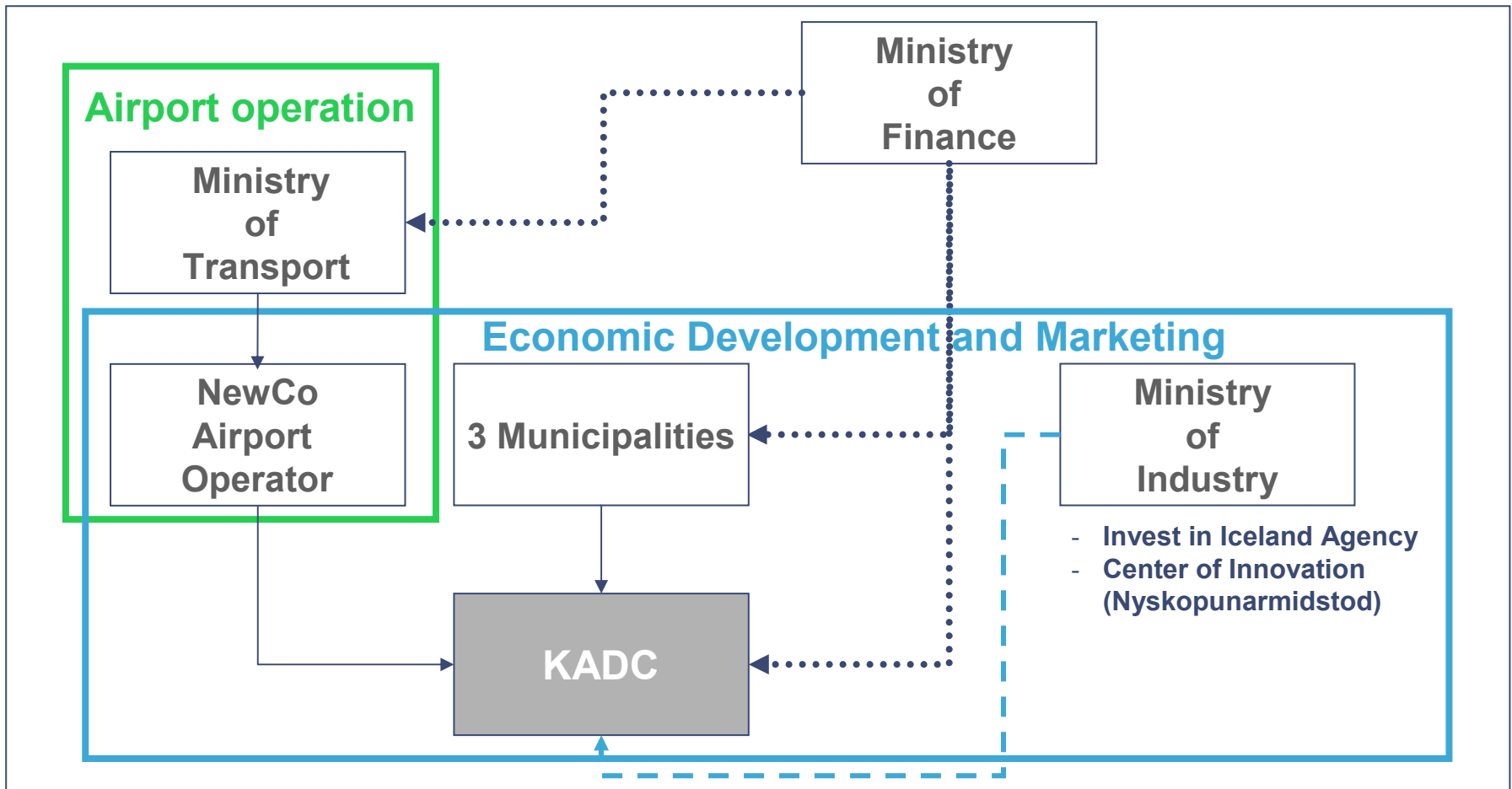


- Preferred option
- Limited number of shareholders with airport operator and municipalities
- Most difficult to implement

- **Implementation path :**
 - Merger of the Keflavik International Airport Administration and the Leifur Eiriksson International Air Terminal as a new, financially independent company under the direct jurisdiction of the Ministry of Transport.
 - Transfer of land to the development company/ the municipalities/ the Ministry responsible for the airport area development company.
 - Agree on the Ministry which will be responsible for the new Keflavik Airport Area Development Company (KADC)
 - Split of responsibilities of KADECO
 - all activities related to the attraction of foreign direct investment and master planning of the area which will be incorporated into KADC and
 - all activities related to the existing facilities and more operational activities e.g. soil contamination which will remain with KADECO Operations
 - Creation of NewCo KADC with a new Board

Corporate Governance Structure – Preferred Option

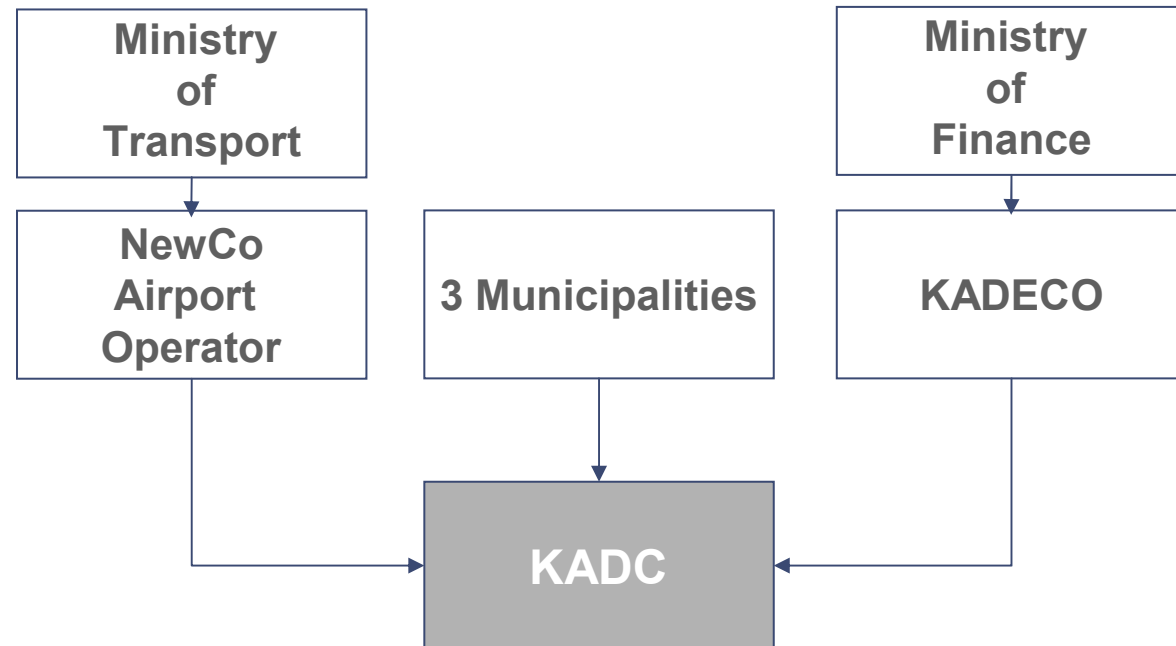
- **Structural Functions of Ministries**
 - Airport Operation
 - Economic Development and Marketing



- **Structural Functions of Ministries**
 - The Ministry of Transport is responsible for **Airport operations** together with the NewCo Airport Operator.
 - **Economic Development** is part of the domain of the Ministry of Industry and they will play an important role in this respect. Invest in Iceland Agency will take up the role of **international marketing** of KADC. In Schiphol, SADC has its own sales and marketing department, but seen the scale of Iceland, and seen the fact that the project will have impact on the economic development of the Keflavik area and beyond, it is more efficient to have this task performed by Invest in Iceland Agency. Invest in Iceland Agency will also be involved in the product development of the airport area development and will as such be represented in the Board of KADC.

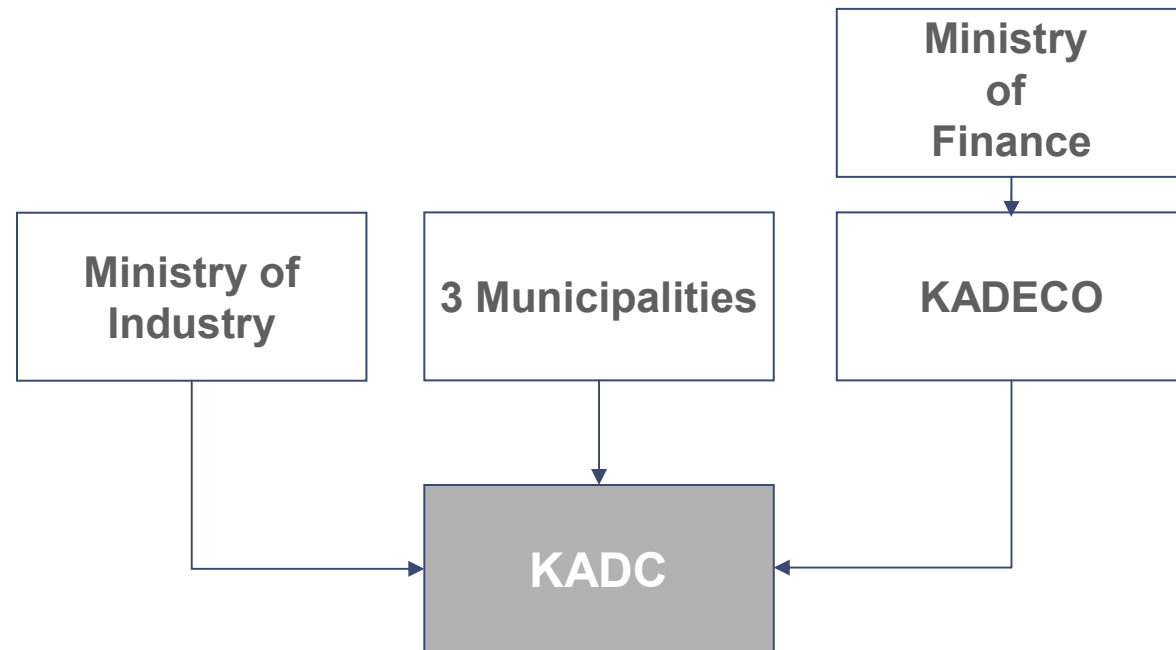
Corporate Governance Structure – Other options

- An alternative for the preferred option is indirect involvement of two Ministries with KADECO as a shareholder



Corporate Governance Structure – Other options

- A merger of the Keflavik International Airport Administration and the Leifur Eiriksson Air Terminal into an efficient organisation is a precondition for shareholdership of the Keflavik Airport Area Development Company.
- In case of failure, the Ministry of Industry could take the lead without the participation of the airport operator.
- Internal competition = issue



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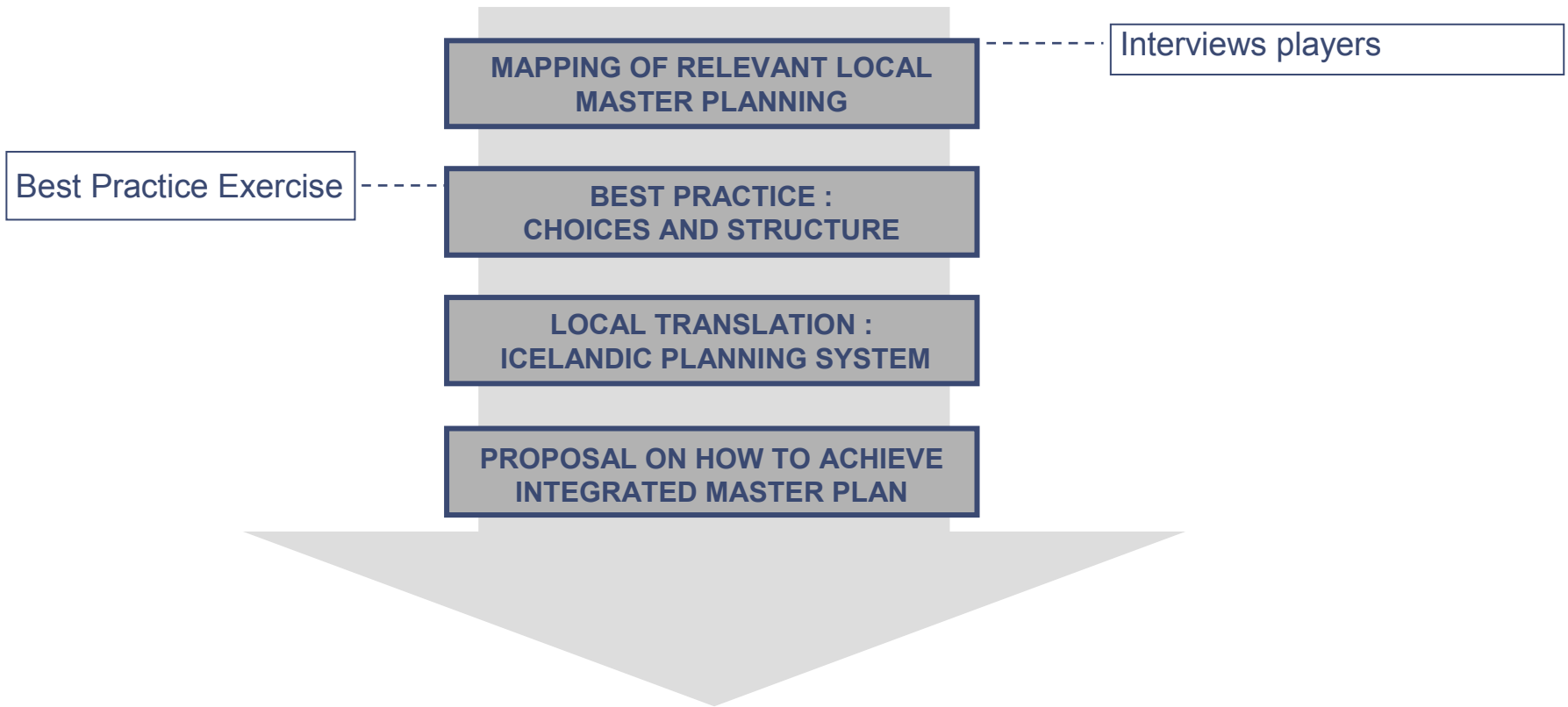
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**TASK 7 : MARKET AND COMPETITIVE
ANALYSIS KEY CLUSTERS**

Purpose and Methodology

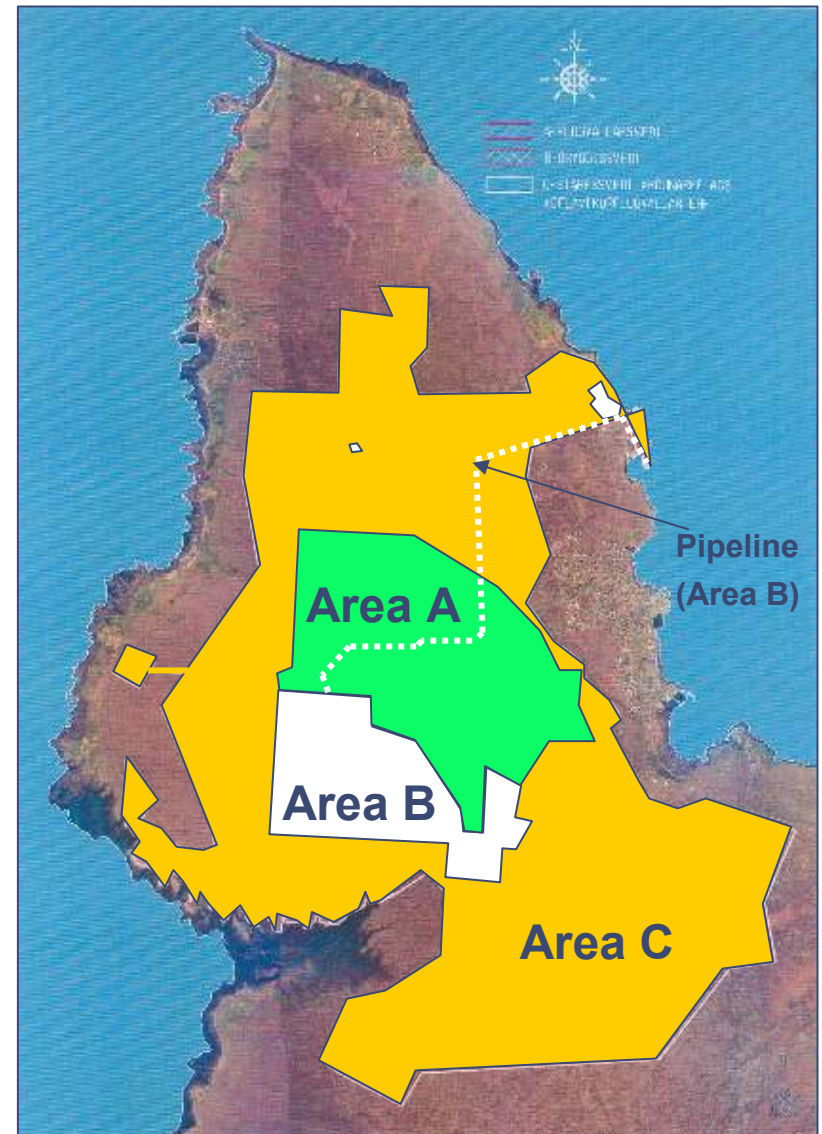
- At the moment, master planning for the Keflavik Airport and the surrounding area is scattered.
- Parties with planning actions include Keflavik International Airport Administration, Leifur Eiriksson International Air Terminal, the Municipalities of Reykjanesbaer, Sandgerdi and Gardur, KADECO, the Building and Planning Commission and Icelandair. Not all of these players also have planning responsibilities. Flugstodir may be coming in as a new player in the area, but has no planning actions or responsibilities at the moment.
- The master planning relevant to the airport and the surrounding area will be reviewed to identify common interests as well as possible conflicts between these plans.
- To achieve this, interviews were conducted with Keflavik International Airport Administration, Leifur Eiriksson International Air Terminal, the Municipalities of Reykjanesbaer, Sandgerdi and Gardur, KADECO, Flugstodir and Icelandair.
- An overview of the current situation will be given and recommendations on how to achieve an integrated master plan for the envisaged area will be put forward.

Purpose and Methodology



Interviews : General issues

- The Law of December 20, 2006 has divided the former agreed area into three parts :
 - zone A, the aviation area,
 - zone B, the security zone and
 - zone C, the zone for civil development.
- The Minister for Foreign Affairs is the supervising authority, including planning issues, until the Prime Minister issues a statement to the effect that the area, in part or wholly, has been taken for other use.



Interviews : General issues

- The Building and Planning Commission used to be in charge of the planning of the whole agreed area. Today, they are still responsible for the planning of Area A and B.
- KADECO is now responsible for the preparation, facilitation and implementation of the planning for Area C. The Municipalities have to approve these plans. The Mayor of Reykjanesbaer is a representative of the Board of KADECO.
- The Keflavik International Airport Administration was and is closely linked to the Building and Planning Commission since the Airport Director is a representative of the Board of the Building and Planning Commission.
- The Municipalities are working on their master planning separately.
- Apart from the official planning authorities, other players take a share in the master planning of the Keflavik Airport Area.

Planning in the Keflavik International Airport Area		
	Area A+B Aviation area and security zone	Area C Zone for civil developments
Building and Planning Committee	√√	√
KADECO		√
Keflavik International Airport Administration	X	X
Leifur Eiriksson International Air Terminal	X	X
Flugstodir	X	X
Municipalities	X	√

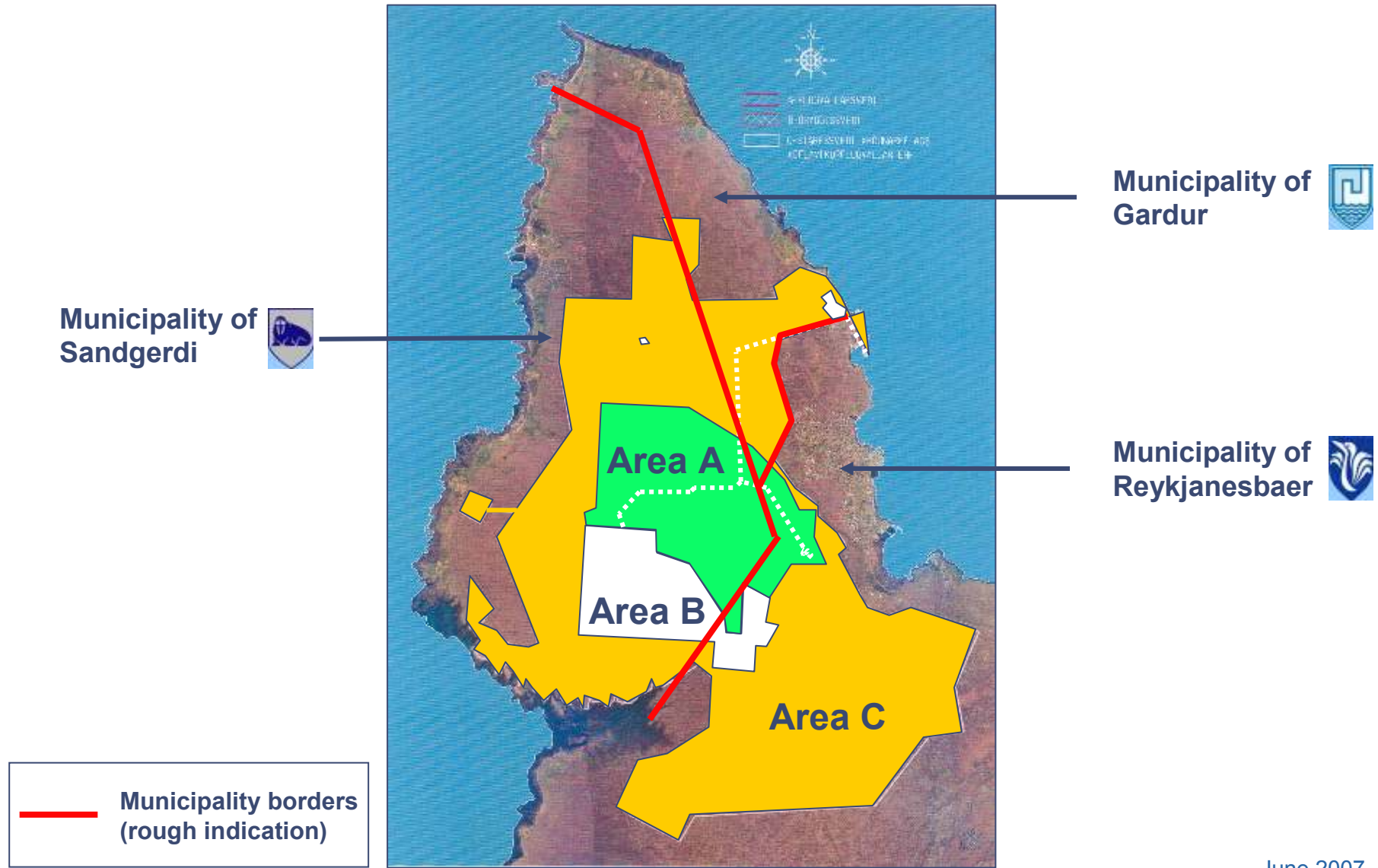
√	Past responsibility
√	Current responsibility
X	Aimed responsibility

Interviews : Municipalities - general

- The Municipalities use the same study bureau for their master planning. However, the content of the master plan of one municipality was not known to the other municipality at the time of the interviews.

Interviews : Municipalities - general

- Municipality borders



Interviews : Municipality of Reykjanesbaer

- The Municipality of Reykjanesbaer is currently setting up its master plan



Interviews : Municipality of Reykjanesbaer

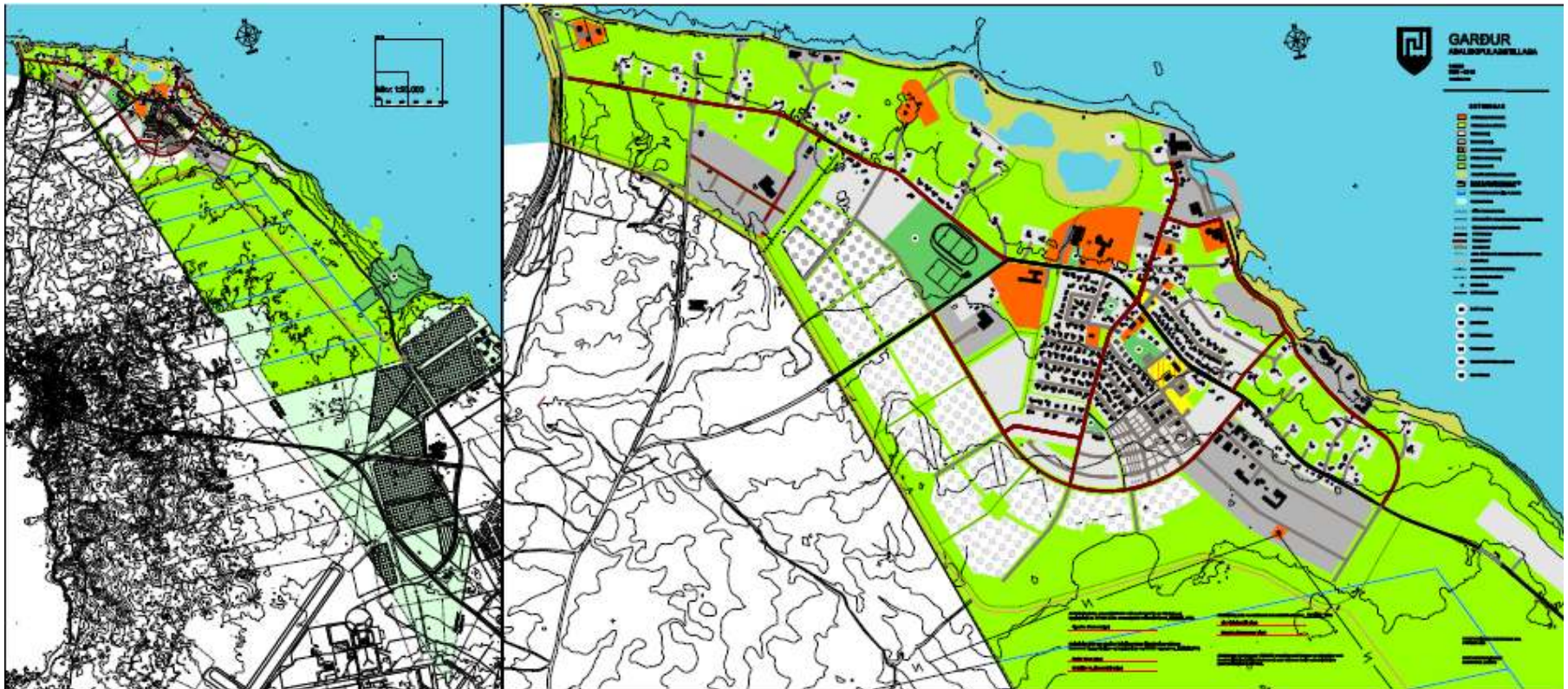
- In its master plan, the Municipality has defined different areas :
 - Residential
 - Airport City
 - Hotel
 - Service and future expansion of Runway
 - One area in the North
 - New future runway plan not taken into account
 - University area/ business parks/ knowledge centre
 - University/preparatory department/ polytechnic education
 - New university in cooperation with Reykjavik University
 - In existing military buildings
 - Clusters
 - Perishables/Fresh fish
 - Energy and Environment
 - Bio technology
 - Health
 - Communication/aviation/security

Interviews : Municipality of Reykjanesbaer

- In its master plan, the Municipality has defined different areas (cont):
 - Resource Park
 - Storage and Transport
 - Harbour/Industry
 - Helguvik, cooperation between Gardur and Reykjanesbaer
 - Potential new aluminum smelter
 - Nature Theme Park
 - Iceland Motopark

Interviews : Municipality of Gardur

- Around 9% of the total airport area is located within the boundaries of the Municipality of Gardur.
- Gardur has not yet started with the master planning of its area.
- Main topic at the moment is the potential investment of a new aluminum plant on the territory of Gardur, in the harbour area.



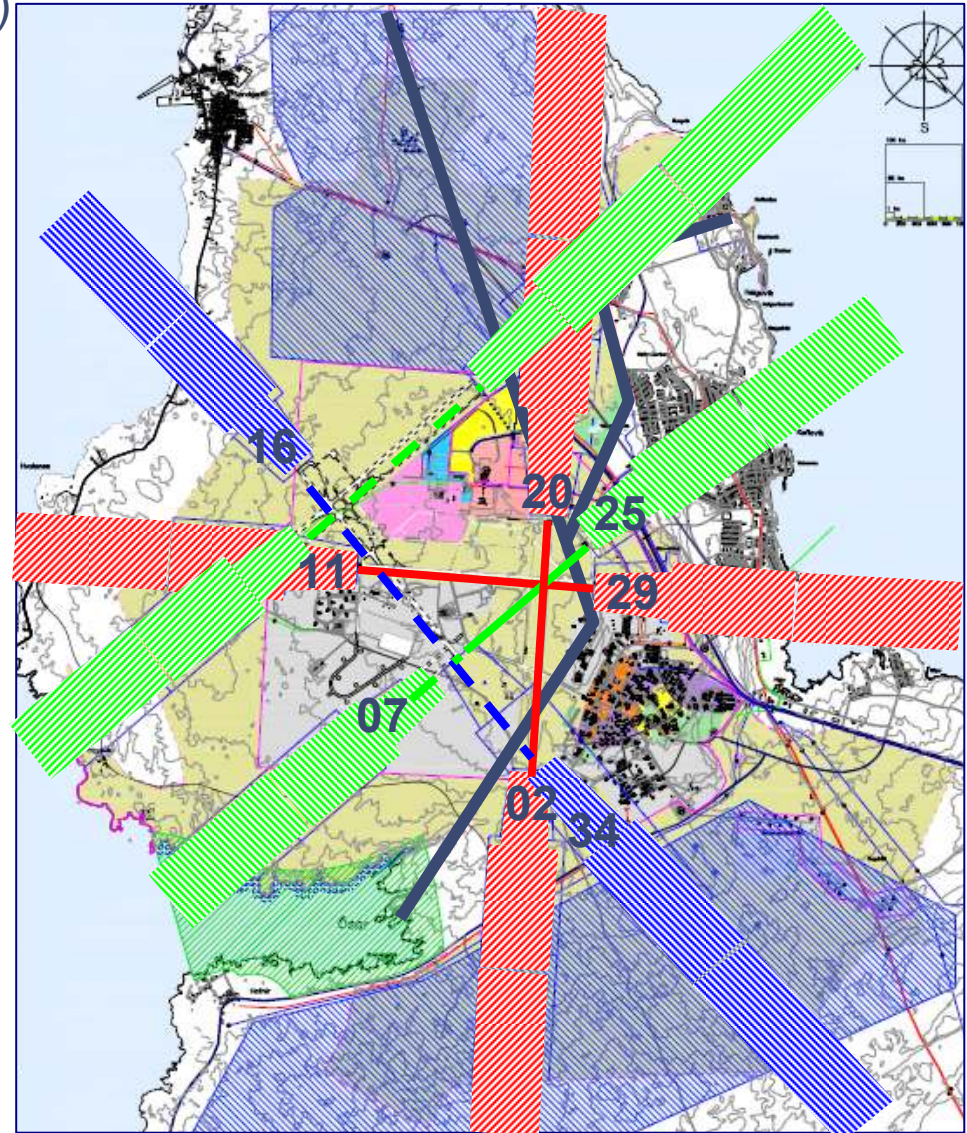
Interviews : Keflavik International Airport Administration

- The master planning of the Keflavik International Airport Administration consists of :
 - Land use report 2000-2020 by BAE Systems
 - Update by Mott MacDonald in 2006 : Land use report 2006-2025
- The report is concerned with the use of land and with the safeguarding of land for future development, rather than the micro-design of facilities.
- The report of 2006 takes into account the traffic forecasts produced for the Leifur Eiriksson Air Terminal.
- The aeronautical needs are the first priority for the Airport Director.
- Mott MacDonald has proposed a change for the location of a future, additional runway (16/34). There seems to be little operational justification for the additional runway space in the 07/25 direction.
- A safeguard area is associated with each runway, containing different areas :
 - Zone A, in which no buildings are permitted,
 - Zone B, for industrial buildings only and
 - Zone C, for single residential buildings and/or industrial buildings with limitations
- Dropping the other options for future expansion could open up tremendous areas for future developments
- Cargo apron should be located close to passenger terminal because 30% of the cargo is transported in the belly of passenger aircrafts.

Interviews : Keflavik International Airport Administration

Future Runway Lay out

- Active Runways (11/29 and 02/20)
- Existing runway, not used (07/25)
- - Future runway (former plan)
- - Future runway (new plan 16/34)
- ▨ Safeguard zones (rough indication)



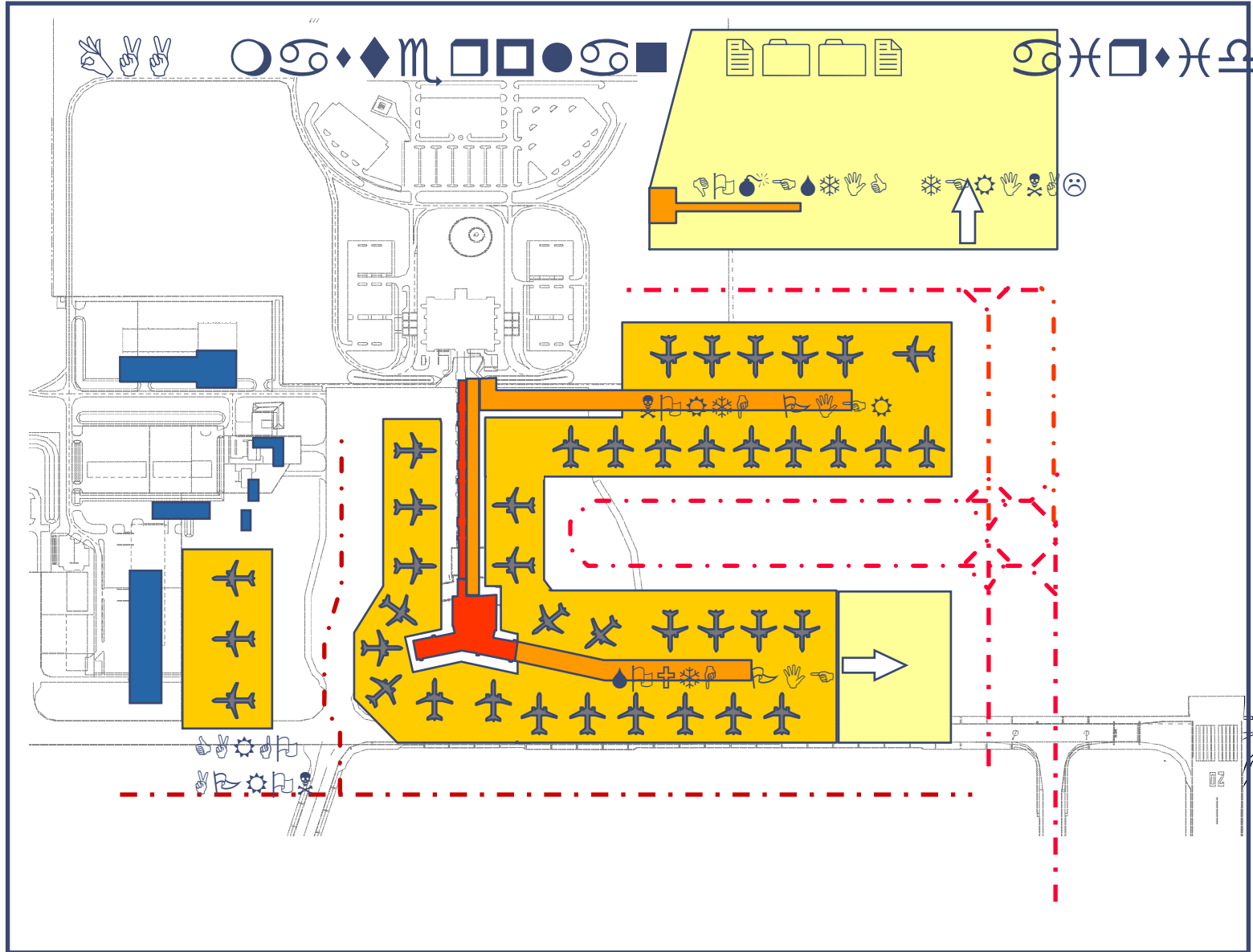
Interviews : Leifur Eiriksson International Air Terminal

- Leifur Eiriksson International Air Terminal has developed a master plan together with BAA 5 years ago in cooperation with other main stakeholders.
- The outcome of this plan has been introduced to the main stakeholders in 2002 as their contribution to the master planning of the area.
- The traffic forecast was reviewed in cooperation with BAA in 2004 and in 2005.
- The purpose of the master plan is to provide a framework for the future expansion of the terminal complex up to 2025.

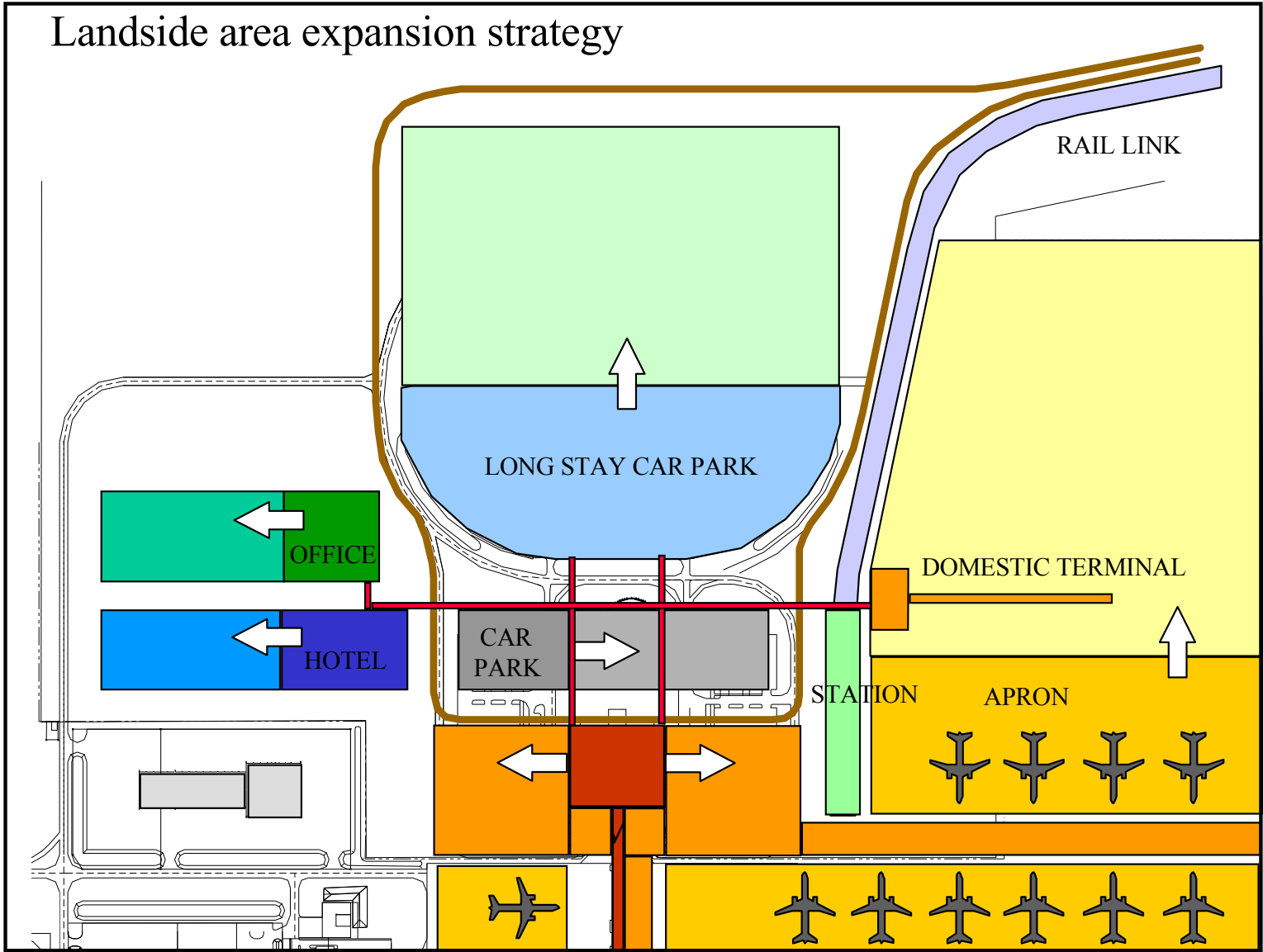
Interviews : Leifur Eiriksson International Air Terminal

- Main topics include (see maps next pages):
 - The expansion of the terminal with a South Pier. To accommodate forecasted traffic up to 2025, further expansion is needed, which will be met with the North Pier.
 - A western extension is blocked by the cargo apron. Location of cargo apron at that particular location is questioned. This is however under the authority of the Keflavik International Airport Administration.
 - If the domestic airport at Reykjavik would be closed in the future, a separate domestic terminal could be build to accommodate this type of traffic.
 - A reorganised landside area outside the terminal which provides space for car parks, hotels, offices and other facilities.
 - A safeguard route for a rail connection to Reykjavik.
- The office and hotel area have not been approved by the Building and Planning Committee. The area was divided in different plots and given into concession to several private parties.

Interviews : Leifur Eiriksson International Air Terminal

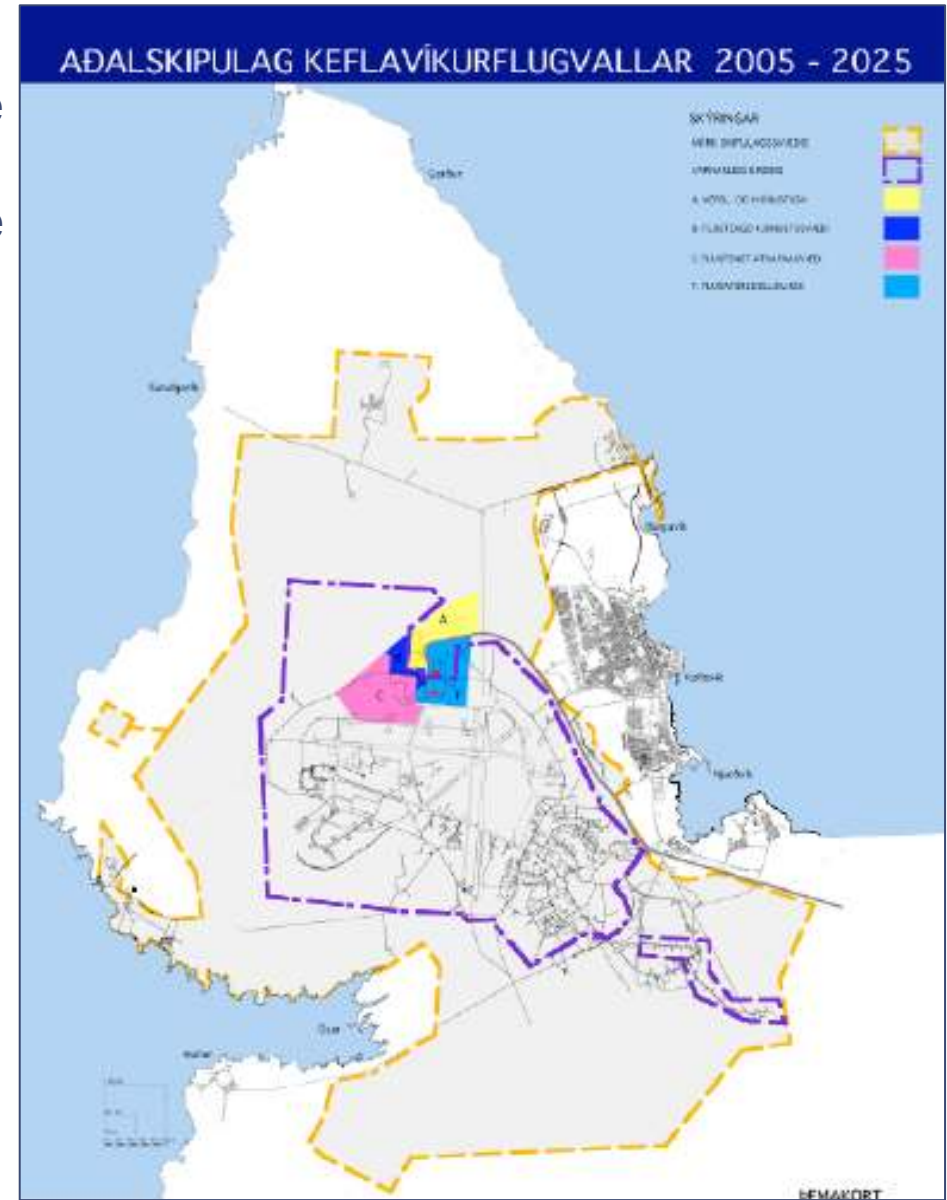


Interviews : Leifur Eiriksson International Air Terminal



Interviews : Building and Planning Commission (*)

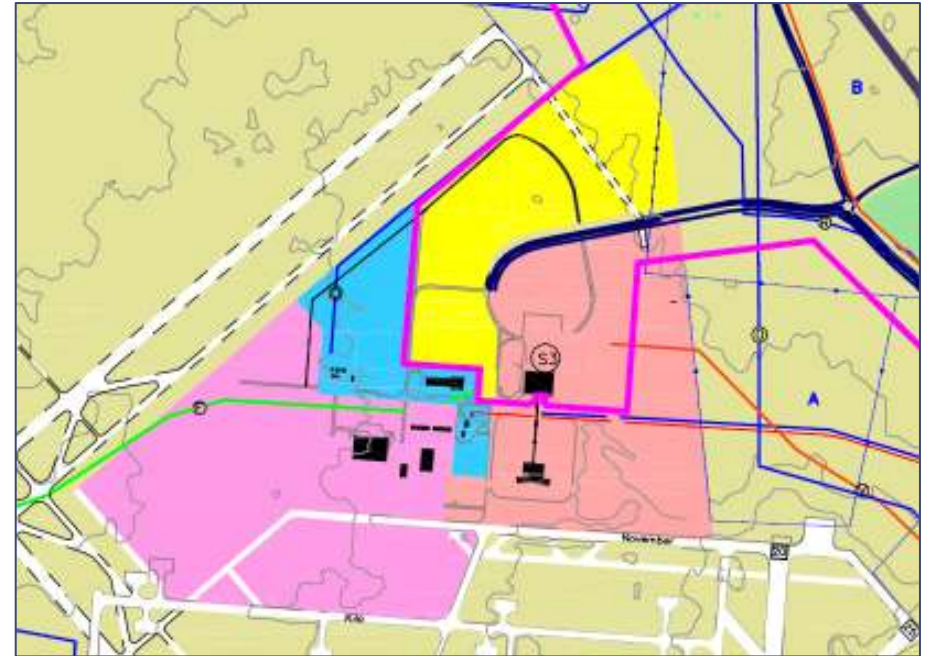
- The Building and Planning Commission used to be responsible for the planning of the whole agreed area and is now responsible for the planning of Area A and B.
- Two main stages in planning :
 - Land use planning
 - Detailed planning
- A master plan 2005-2025 for the former agreed area has been made
- This master plan has not been updated yet for the new situation



(*) Interview with the Building and Planning Commission dates from 2006


Interviews : Building and Planning Commission

- The detailed planning is only done for a small area, the former “civil zone”
- Allowed activities are defined by area within the Civil Zone. Current zoning of the Civil Zone differentiates between:
 - Retail and service
 - Terminal
 - Aerial services
 - Ramp services
- Detailed planning of an area takes about one year



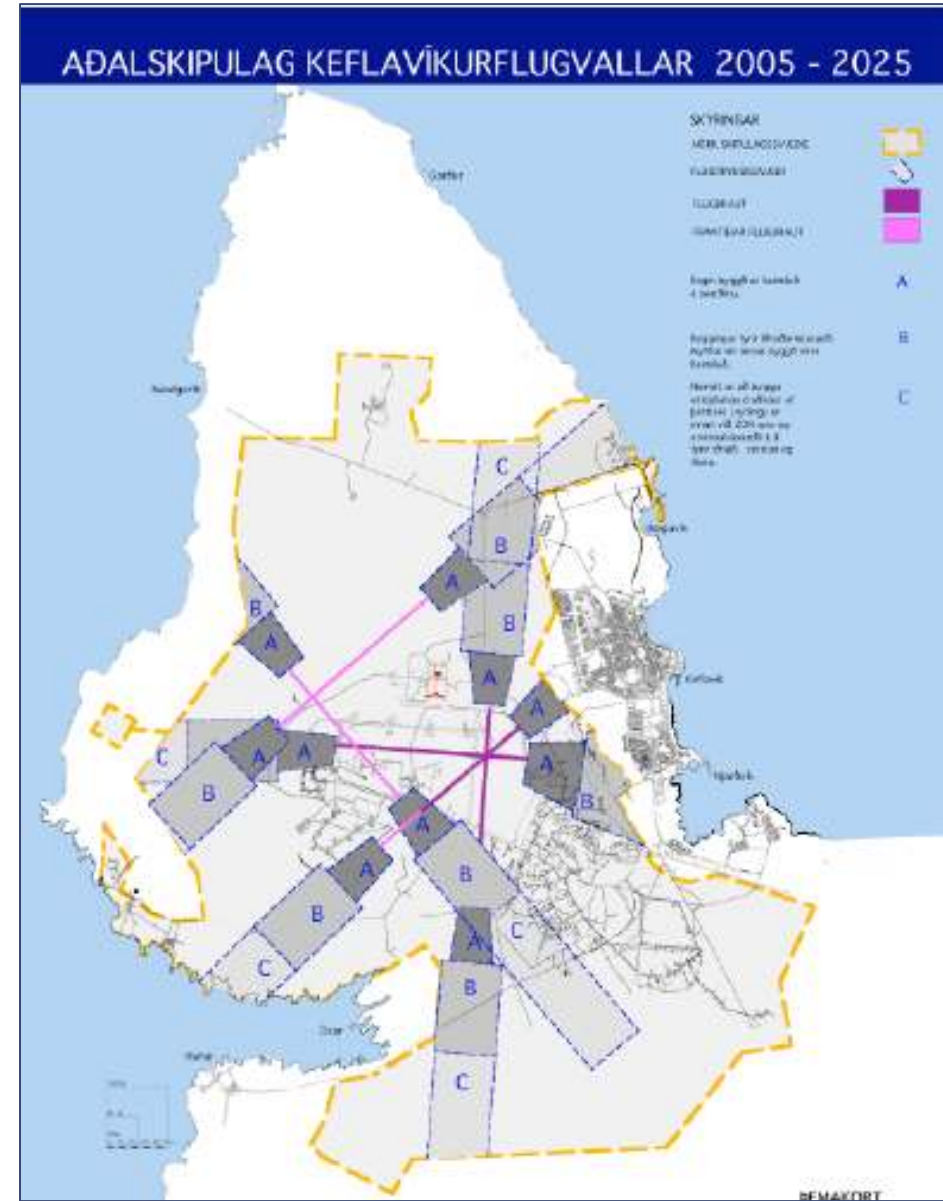
CIVIL ZONE

Total surface

Retail and service area	50 ha	
Terminal area	80 ha	
Aerial Services	98 ha	
Ramp services	22 ha	
TOTAL	250 ha	

Interviews : Building and Planning Commission

- Land reservations for current and future runways have been made in the master plan
- The Layout of runway 16/34 is already added to the master plan but is shorter and therefore has a smaller safeguard area



Interviews : KADECO

- KADECO has been operational since the beginning of 2007. KADECO acts on behalf of the government for all issues regarding zone C and for some facilities related to zone A.
- KADECO has a service agreement with the Ministry of Finance to operate and lead the future planning and conversion of this area.
- KADECO has not yet made a master plan for the area. KADECO mentions the struggle that is currently going on between the different parties in the area in this respect.
- For the moment, the main focus is on the existing military buildings. KADECO is working on several projects. A memorandum of understanding has been signed with University of Iceland to investigate the possibilities of an education cluster in the Keflavik area. Several sectors are being looked at, amongst others the green energy sector.

Interviews : Flugstodir

- All domestic airports in Iceland, except some privately owned landing places, are operated by Flugstodir under the jurisdiction of the Ministry of Transport.
- For the domestic airports, the master planning is suggested by Flugstodir and each community has to approve this. This works well, except for Reykjavik where this has always been a problem.
- It is possible that Flugstodir's responsibility will be extended to all airports in Iceland in view of the fact that Keflavik international Airport no longer serves as a military facility.
- Flugstodir's considers it impossible that the municipalities would have planning authority for area A.

Interviews : Icelandair

- Although they are responsible for over 85% of total passenger traffic, Icelandair has not been involved in the master planning of Keflavik International Airport until now.
- Icelandair is hindered by the situation of scattered interests within the airport fence and the current terminal is not in line with the business model of Icelandair.
- Icelandair would like to be more closely involved in the master planning and future developments and would like to be able to influence the operational thinking of Keflavik Airport.
- Icelandair wants to build its own terminal in Keflavik.

Master Planning : Potential conflicts

Potential conflicts concerning master planning in the Keflavik Airport Area	Keflavik International Airport Administration	Leifur Eiriksson International Air Terminal	Flugstodir	Municipality of Reykjanesbaer	Municipality of Sandgerdi	Municipality of Gardur	Building and Planning Committee	KADECO	Icelandair
Parties involved									
The different municipalities are making there master planning separately and do not communicate				X	X	X			
Not all the municipalities have the same speed in this issue and one municipality may be lacking behind when it comes to the implementation of initiatives				X	X	X			
Duplication of initiatives is likely		X		X	X	X			
Municipalities have not communicated (yet) with other planning authorities in the area	X			X	X	X	X		
Location and lay out of future runway is subject to change	X							X	
Safeguard areas for the runways are not identical in all plans	X			X					
Final choice with reference to future runway could open up areas	X							X	
The master plan of the building and planning committee has not been updated yet to the new situation								X	
Unclear situation with regards to water protection areas				X	X	X	X		
The Leifur Eiriksson International Air Terminal has ambitions outside the terminal area. These plans have not been approved by the Building and Planning Commission	X	X						X	
Icelandair is hindered by the situation of scattered interests within the airport fence and the current terminal is not in line with the business model of Icelandair	X	X						X	X
Icelandair wants to build its own terminal in Keflavik	X	X						X	X
Role of new players and potential new players is unclear at the moment with regards to planning			X					X	
Two separate companies in the airport with little communication with regards to planning and other issues	X	X							

Master Planning : Potential conflicts

- In summary, potential conflicts in the Keflavik airport area relate to the following issues :
 - Many partners are involved in master planning, without an umbrella organisation responsible for overall master planning of the area
 - Little communication between the different parties
 - Duplication of initiatives, efforts and money
 - Unclear situation with regards to responsibilities and initiatives of different airport companies
 - Initiatives from three municipalities uncoordinated and unequal
 - Location and lay-out of future runway : final decision making on this issue would clarify the possibilities for future developments and avoid conflicts with initiatives from the municipalities
 - Official view on water protection areas is unclear
 - Involvement of the home carrier in the development of the airport is inexistent at the moment and should be a priority seen the strategic importance of this player for the airport
- An overall umbrella organisation is imperative in order to be able to come up with the physical definition of the area and the subsequent location of the targeted activities

Best Practice – Choices and Structure

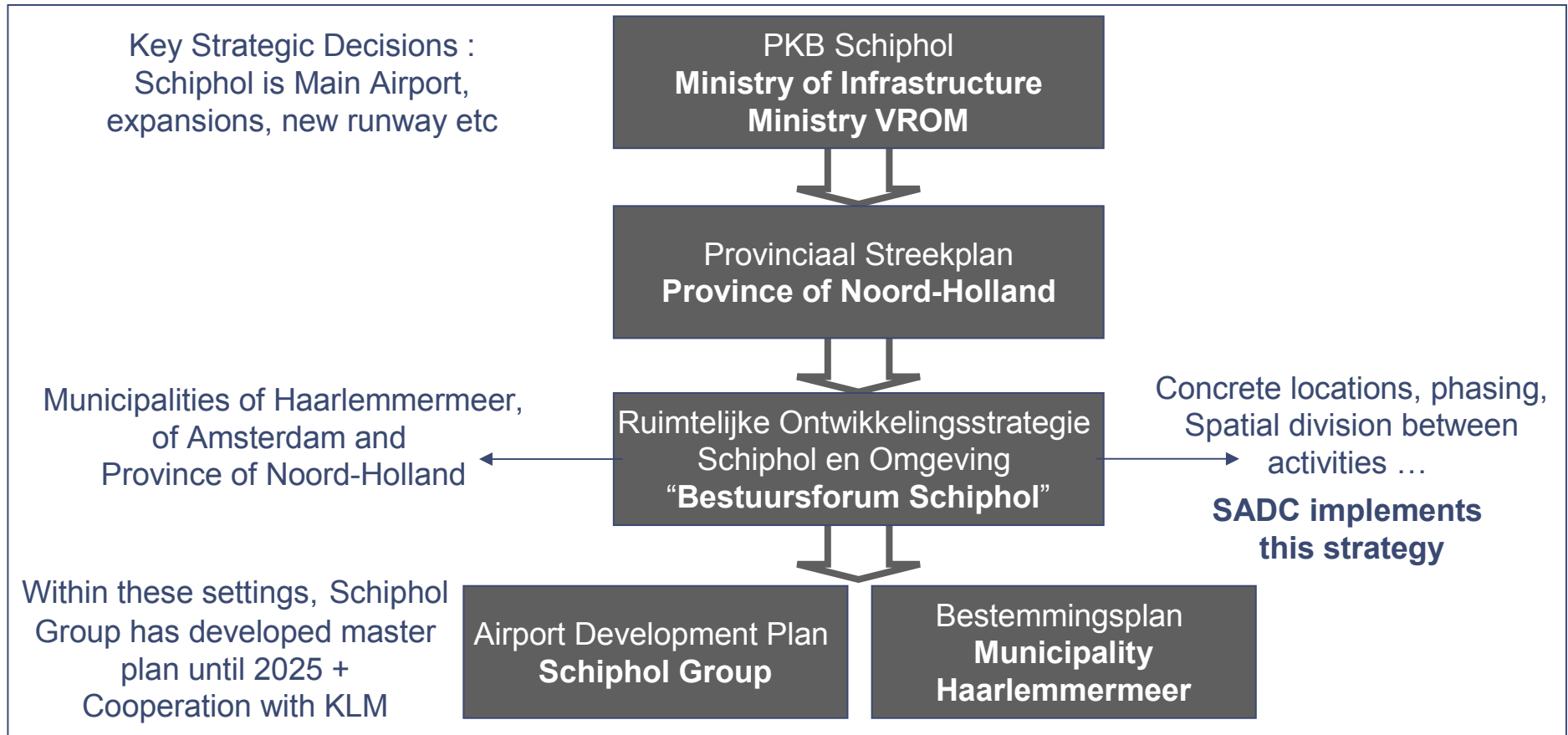
- Communication, Cooperation and a Common Plan between stakeholders in Airport Area Development Plan is crucial
- Overall master planning is performed by public authorities.
- An integrated master plan for the total airport area, inside and outside the airport fence, is key to success.
- The Airport operator develops a master plan for the airport area within the fence within the settings of the overall master plan.
- The vision of the home carrier should be incorporated in the long term planning of the airport operator.
- The territory local authorities also work within the boundaries of the overall master plan when working out the master planning for the area for which they are responsible.

Best Practice - Choices and Structure

- A master plan for a region is a comprehensive plan to guide the long-term physical development of a particular area.
- The short and long term planning of different functions (e.g. residential areas, nature, industry, services, infrastructure) in such a way that an optimal interaction between the different functions is possible and that all development opportunities are determined.
- A master plan is a key success factor in dynamic growth regions such as an airport region. With a master plan, it is possible to accommodate the developments at all times without having to go through time consuming planological procedures.
- The most important parts of a master plan are :
 - Planning of business sites for different activities (office, logistics, R&D and production) including timing and phasing
 - Mapping of existing and future residential areas
 - Planning of new infrastructure, roads, public transport in relation to the accessibility of new development locations
 - Indication of nature protection areas including water protection areas and recreation areas
 - In airport areas : indication of current and future runways, safety zones and noise hinder areas, areas in which building restrictions exist

Best Practice - Choices and Structure

- Detail of best practice example Schiphol: General master plan by national authorities. This plan is further refined by regional and local authorities:



- Special vehicle to decide on spatial development strategy of the airport and the surrounding area

Local Translation – Icelandic Planning System

The Icelandic planning system (*)

- The Icelandic administrative system is divided into two levels of government, the central government (national) and the municipalities (local); there is no regional authority.
- According to the Planning and Building Act there are three planning levels : regional, municipal and local and plans covering the same area have to be consistent to each other.
- There is no formal land-use planning at the national level, but ministries play an important role for land-use planning at all levels through their sector plans especially in relation to transportation infrastructure, power structures and nature conservation.

(*) From “Regional planning in Finland, Iceland, Norway and Sweden”, prepared by the Ministry of Environment in Denmark (2004).

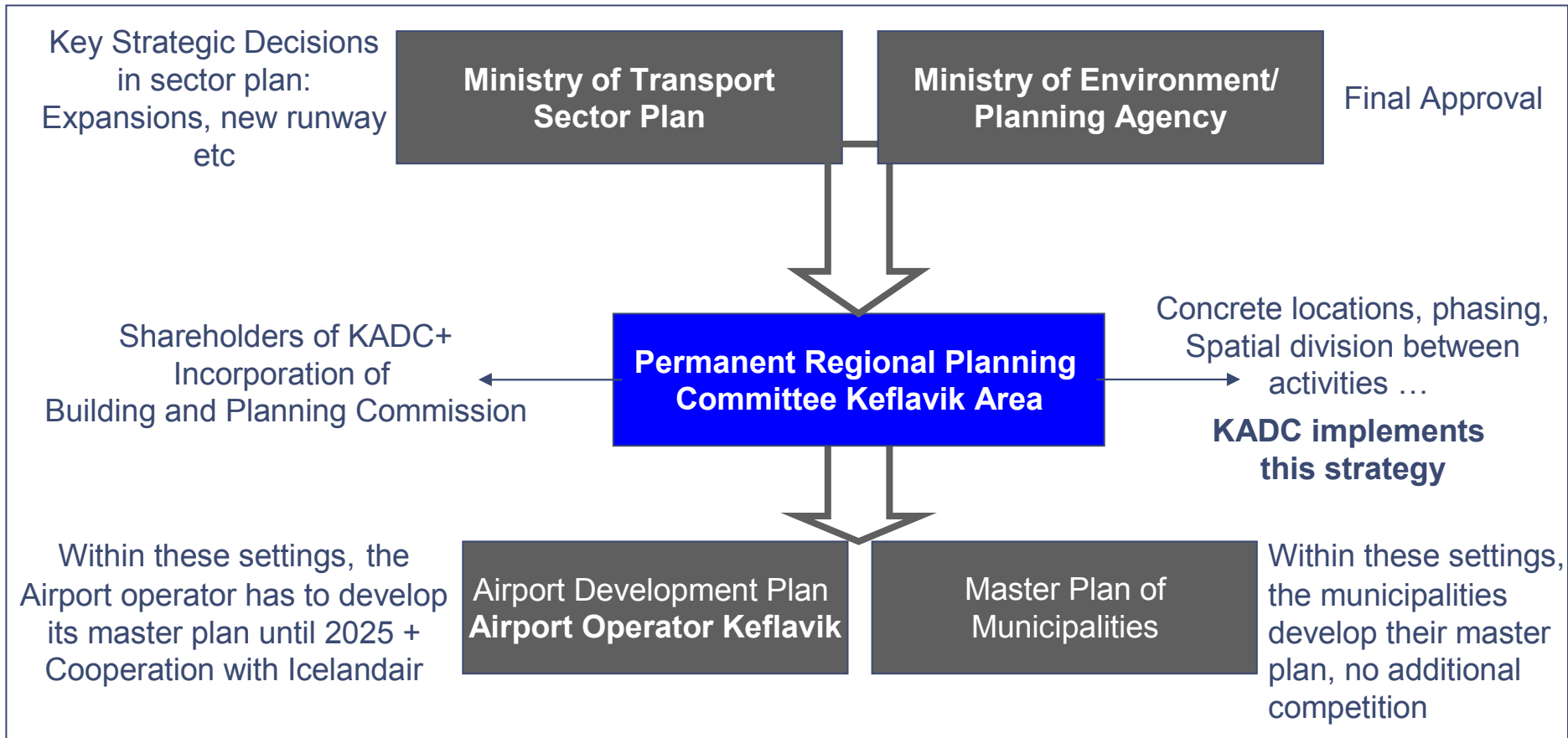
Local Translation – Icelandic Planning System

The Icelandic planning system (cont.)

- It is the responsibility of the local authorities to prepare the plans but the Minister for Environment has supreme control over planning, assisted by the Planning Agency, and both municipal and regional plans are subject to the minister's approval.
- There is no regional administrative level, but two or more municipalities can, at the initiative of the relevant local authorities or the Planning Agency, prepare a regional plan, where the aim is to co-ordinate the policy of the local authorities on land-use over a period of at least 12 years. Then, a regional planning committee with representatives from all municipalities involved in addition to one appointed by the Planning Agency is established and is responsible for preparing the plan.

Local Translation – Proposal on how to achieve Integrated Master Plan

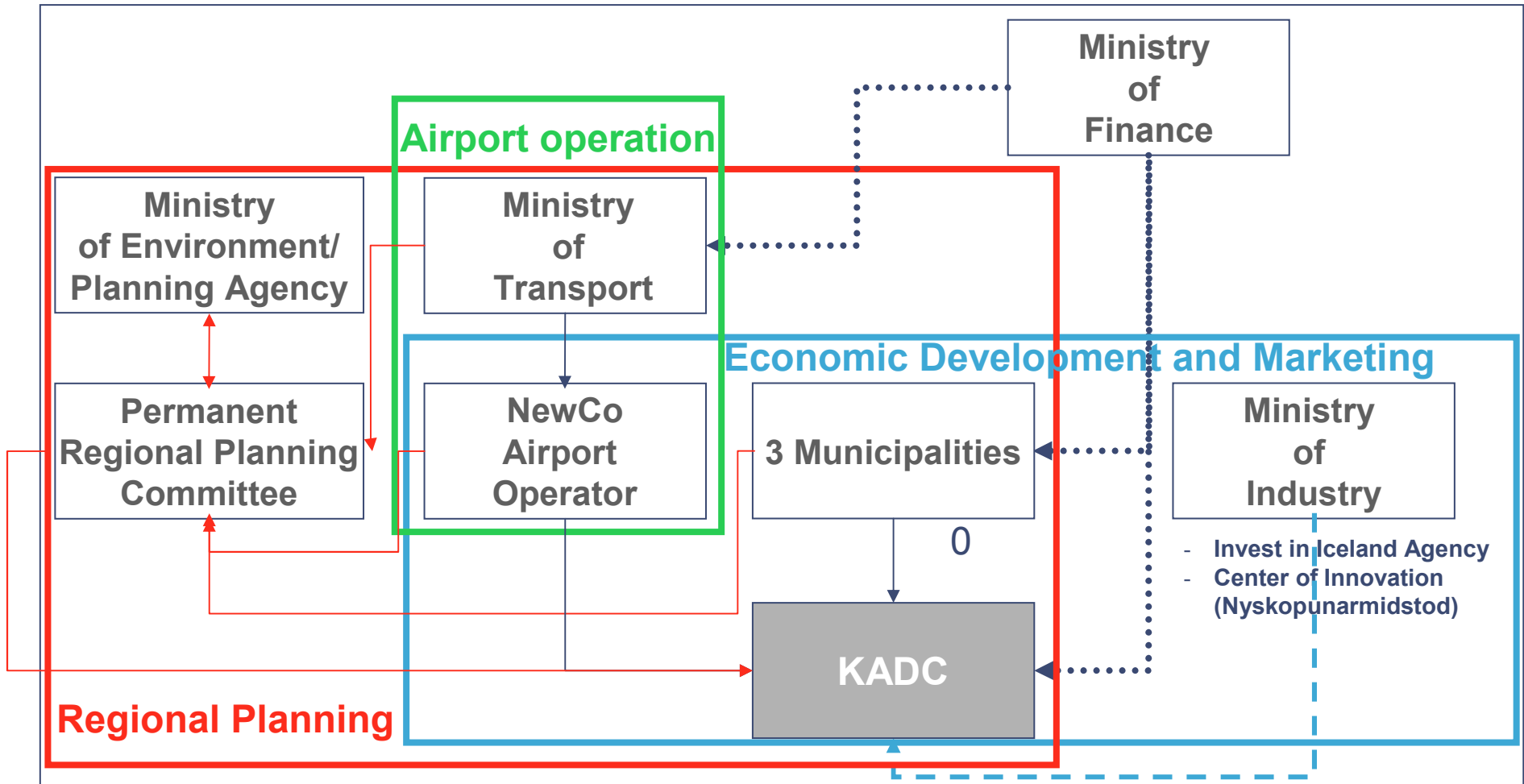
- Proposal to set up a special vehicle to decide on spatial development strategy of Keflavik airport and the surrounding area :



- Shareholders of KADC also take part in the regional planning committee of the Keflavik area and the Building and Planning Commission is part of this committee, so that their experience with the area can be fully used.

Corporate Governance Structure – Preferred Option cont.

- **Structural Functions of Ministries**
 - Airport Operation
 - Economic Development and Marketing
 - Regional Planning



Corporate Governance Structure – Preferred Option cont.

- **Structural Functions of Ministries**
 - The **Ministry of Transport** is responsible for **Airport operations** together with the NewCo Airport Operator.
 - **Economic Development** is part of the domain of the **Ministry of Industry** and they will play an important role in this respect. Invest in Iceland Agency will take up the role of **international marketing** of KADC. In Schiphol, SADC has its own sales and marketing department, but seen the scale of Iceland, and seen the fact that the project will have impact on the economic development of the Keflavik area and beyond, it is more efficient to have this task performed by Invest in Iceland Agency. Invest in Iceland Agency will also be involved in the product development of the airport area development and will as such be represented in the Board of KADC.

Corporate Governance Structure – Preferred Option cont.

- **Structural Functions of Ministries**
 - The **Ministry of Environment** has supreme control over **Planning** assisted by the Planning Agency. The Ministry of Transport takes the key strategic decisions with regards to the international airport in Keflavik in its Sector Plan. The Permanent Regional Planning Committee of the Keflavik Area further refines this plan and defines concrete locations for activities, the phasing, etc. The stakeholders of KADC are part of this committee. KADC implements the master plan. The airport company develops a master plan within the airport fence within the settings of the overall master plan and incorporates the vision of the home carrier.

Overall Table of Contents

**KEFLAVIK INTERNATIONAL AIRPORT
AIRPORT AREA DEVELOPMENT STRATEGY**

**TASK 1 : BENCHMARK/ BEST PRACTICE
AMSTERDAM/ BERLIN/ FRANKFURT**

**TASK 2 : UPDATE STAKEHOLDER
MAPPING AND MISSION STATEMENT**

**TASK 3 : OPTIONS FOR CORPORATE
GOVERNANCE MODEL**

**TASK 4 : MASTER PLAN
REVIEW**

**TASK 5 : DEFINITION OF
KEY CLUSTERS**

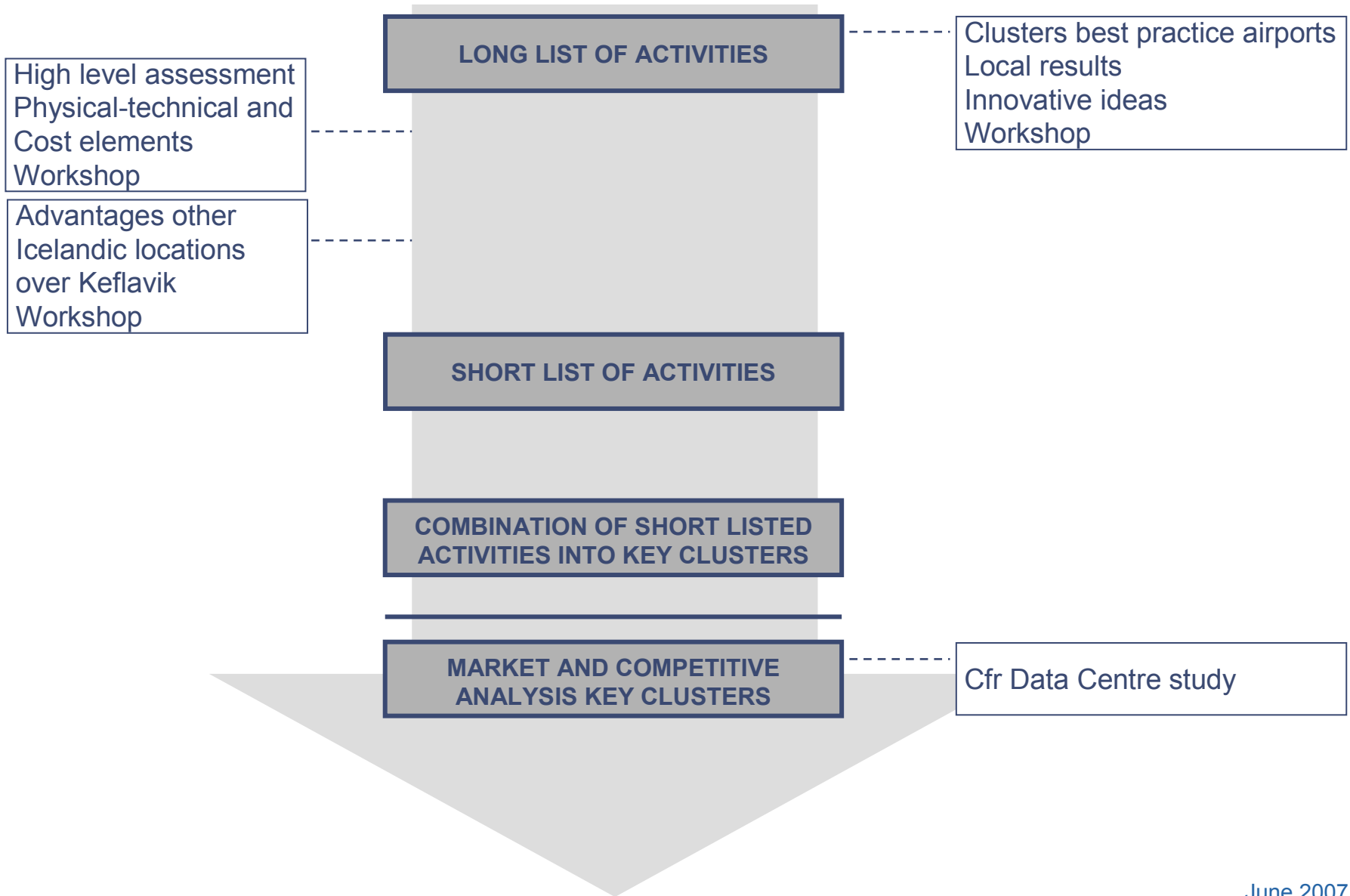
**TASK 6 : MONEY STREAMS RELATED TO
CORPORATE GOVERNANCE MODEL**

**TASK 7 : MARKET AND COMPETITIVE
ANALYSIS KEY CLUSTERS**

Purpose and Methodology

- Marketing should be focussed on the creation and/or enhancement of strong clusters so that the international competitive position of the region is increased.
- The selection of the clusters should be based on:
 - innovative ideas
 - examples of successful clusters in best practice airport areas
 - the strengths of Iceland and the Keflavik region more specifically
- A thorough understanding of the selected clusters is necessary to be successful. The needs of the clusters both in terms of infrastructure as in terms of services and cost issues should be mapped. Customised solutions can then be created to make the difference.
- For the selected target clusters, a detailed market and competitive analysis will detail these demand elements (Task 7).

Purpose and Methodology



Background

- **Definition of a cluster (Porter) :**
A cluster is a geographically proximate group of connected companies and associated institutions in a particular field, including product producers, service providers, suppliers, universities, and trade associations.
- Today's economic map of the world is characterized by clusters that enjoy unusual competitive success in a particular field. The most famous examples are found in Silicon Valley and Hollywood, but clusters dot the world's landscape.
- Not every place can achieve such nature, but many successful smaller clusters do exist, where core competency, focus and commitment are critical success factors.

Background

- Porter explains how clusters affect competition in three broad ways:
 - by increasing the productivity of companies based in the area;
 - by driving the direction and pace of innovation and
 - by stimulating the formation of new businesses within the cluster.

Geographic, cultural, and institutional proximity provides companies with special access, closer relationships, better information, powerful incentives, and other advantages that are difficult to tap from a distance.

- Policymakers can contribute to their region's economic success by understanding the competitive strengths and challenges of their region's industry clusters, building on the strengths, and addressing the challenges.
- The factors most important to competitive advantages in many industries, are not inherited but are created within a nation.
- The main benefits of cluster policies include:
 - Efficient use of limited economic development resources
 - Tool to leverage broader regional economic growth
 - Promotes competitiveness in regional industries

Definition of Key Clusters : Long list Activities

- Activities that have been identified in the best practice benchmark airports are :

Logistics

Aerospace

Automotive

Consumer and business electronics

Banking and Finance

Insurance

Perishables – Food processing

Biotech

ICT/ Data centers

Optical instruments

Audio/video

Printing and Publishing

Fashion

Design

Definition of Key Clusters : Long list Activities

- Activities which have also been mentioned are :
 - Education
 - Health and Wellness
 - Sustainable Energy and Environment
 - Tourism (gastronomy, nature)
- Other ideas include :
 - Creative industry (film, gaming, music industry)
 - Test tracks, pyrotechnics
 - Congress centre and Global (customer) training centre
 - Medical esthetics
- Target activities should be chosen in function of the strengths of a region.
- Keflavik versus other Iceland

Definition of Key Clusters : Selection of Activities

- High level assessment : physical-technical and cost elements

High level assessment		
Cluster	Physical-technical	Cost related
Logistics	X	X
Aerospace	X	X
Automotive	X	X
Consumer and business electronics	X	X
Banking and Finance		Tax Communication
Insurance		Tax Communication
Perishables - Food Processing	Fresh fish International airport	
Biotech Industry	Production of proteines through plants Isolated genetic pool Marine biotechnology	
EDI/ Data Centres	Secure, island location Scandinavian mentality Legislation	Energy
Optical instruments	International airport	
Audio/Video	X	X
Printing and Publishing	X	X
Fashion, design		

Definition of Key Clusters : Selection of Activities

- High level assessment : physical-technical and cost elements

High level assessment		
Cluster	Physical-technical	Cost related
International University	Campus Airport	
Health and Wellness	Blue Lagoon Image Airport	
Sustainable energy and Environment	Geothermal energy	Cheap energy
Tourism	Nature Gastronomy Blue Lagoon Airport	
Film industry	Nature International airport	Tax
Test tracks/ Pyrotechnics	Space	Energy Tax
Congress Centre/Training centre	Nature Gastronomy Midway location International Airport	
Medical esthetics	Image Isolated, discrete location Available expertise International airport	

Definition of Key Clusters : Selection of Activities

- High level assessment : advantages other Icelandic locations over Keflavik




High level assessment		
Cluster	Physical-technical	Cost related
Logistics	X	X
Aerospace	X	X
Automotive	X	X
Consumer and business electronics	X	X
Banking and Finance		Tax Communication
Insurance		Tax Communication
Perishables - Food Processing	Fish International airport	
Biotech Industry	Production of proteines through plants Isolated genetic pool Marine biotechnology	
EDI/ Data Centres	Secure, island location Scandinavian mentality Legislation	Energy
Optical instruments	International airport	
Audio/Video	X	X
Printing and Publishing	X	X
Fashion, Design		

	Advantage capital vs Keflavik
	Advantage Keflavik
	Neutral

Definition of Key Clusters : Selection of Activities

- High level assessment : advantages other Icelandic locations over Keflavik

High level assessment		
Cluster	Physical-technical	Cost related
International University	Campus Airport	
Health and Wellness	Blue Lagoon Image Airport	
Sustainable energy and Environment	Geothermal energy	Cheap energy
Tourism	Nature Gastronomy Airport	
Film Industry	Nature Proximity of Reykjavik Available properties International airport	Tax
Test tracks/ Pyrotechnics	Space	Energy Tax
Congress Centre/ Training Centre	Nature Gastronomy Midway location International Airport	
Medical esthetics	Image Isolated, discrete location Available expertise International airport	

	Advantage capital vs Keflavik
	Advantage Keflavik
	Neutral

Definition of Key Clusters : Short list of Activities

High level assessment : Short listed activities		
Cluster	Physical-technical	Cost related
Perishables - Food Processing	Fresh fish International airport	
Biotech Industry	Production of proteines through plants Marine biotechnology Energy related biotech	
EDI/ Data Centres	Secure, island location Scandinavian mentality Legislation	Energy
International University	Campus Airport	Housing
Health and Wellness	Blue Lagoon Image Airport	
Sustainable energy and Environment	Geothermal energy	Cheap energy
Film Industry	Nature Proximity of Reykjavik Available properties International airport	Tax
Test tracks/ Pyrotechnics	Space	Energy Tax
Congress Centre/ Training Centre	Nature Gastronomy Midway location International Airport	
Medical esthetics	Image Isolated, discrete location Available expertise International airport	

Definition of Key Clusters : Combination of short listed activities into clusters



Way forward



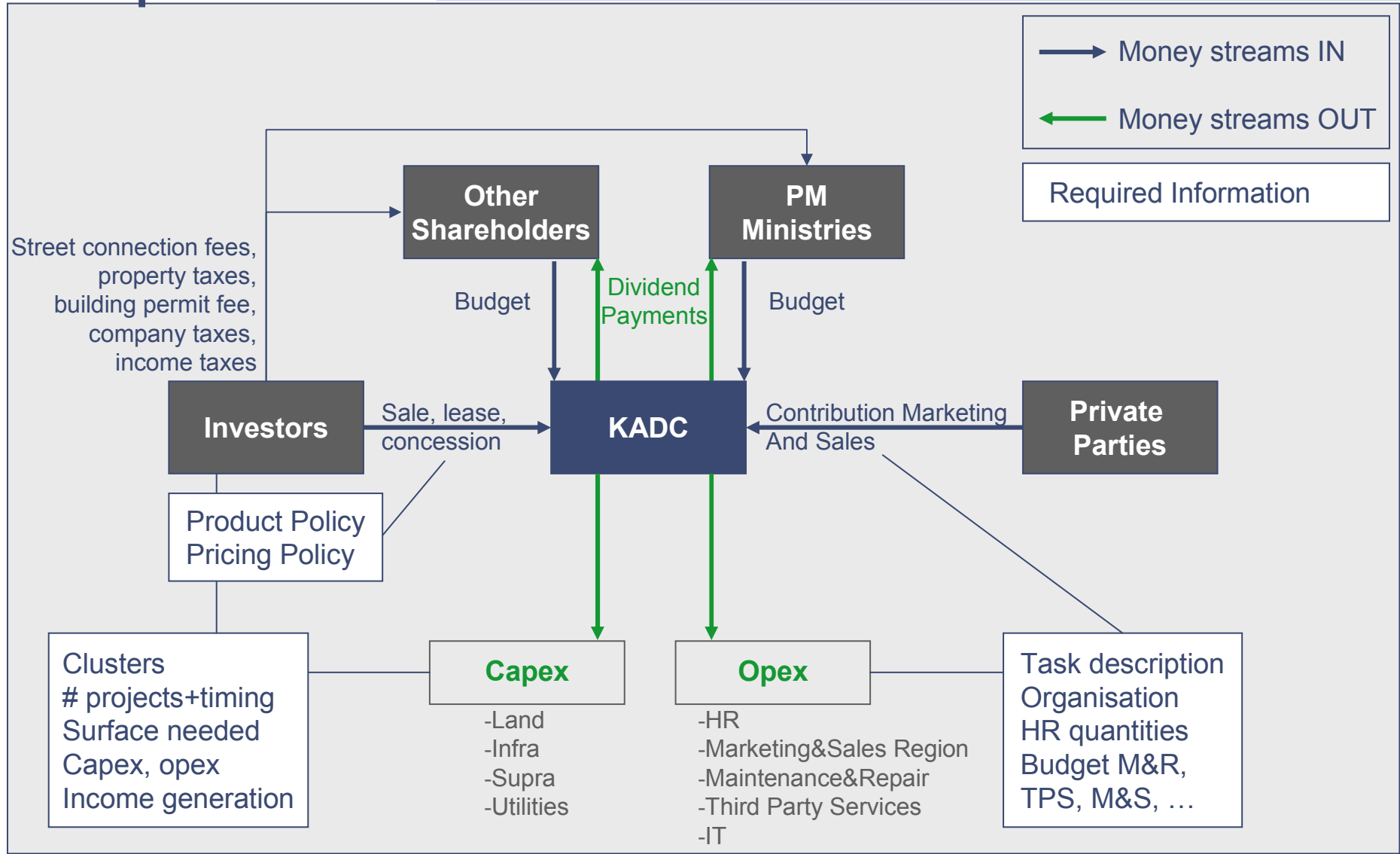
TASK 6 : MONEY STREAMS RELATED TO CORPORATE GOVERNANCE MODEL

- High level assessment of AS IS situation of the money streams in Keflavik by means of a flow chart. This will allow to understand the current proportions between the different stakeholders.
- For the corporate structure options chosen in Task 3, a TO BE picture of the money streams will be developed
- Pro forma cash flow projections will allow the respective shareholders to define their final position with regards to their participation and input in the development company.

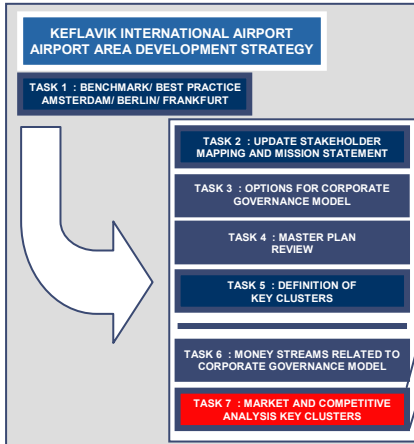
Way forward

TASK 6 : MONEY STREAMS RELATED TO CORPORATE GOVERNANCE MODEL

Example



Way forward



TASK 7 : MARKET AND COMPETITIVE ANALYSIS KEY CLUSTERS

- Detailed market and competitive study of the chosen key clusters in order to obtain a thorough understanding of their needs and the international competitive position of Keflavik.
- Re current PwC study on Iceland as a location for Data Centre Activity
- Will provide input on the market potential, the surface that will be needed for future activities , the capexes, the opexes and the income streams that can be expected from these activities (e.g. price of land, number of employees).

