

**THE REPUBLIC OF ICELAND ANNOUNCES AN INVITATION FOR OFFERS TO
SELL SECURITIES FOR CASH**

**NOT FOR DISTRIBUTION TO ANY ITALIAN PERSON OR TO ANY PERSON
RESIDENT AND/OR LOCATED IN ITALY**

16 June 2010

The Republic of Iceland ("**Iceland**") hereby announces an invitation to holders (subject to jurisdictional restrictions as described below) of the €1,000,000,000 3.750 per cent. Fixed Rate Notes due December 2011 (of which €823,303,000 principal amount is currently outstanding, the "**2011 Notes**"), and the €250,000,000 5.375 per cent. Notes due 2012 (of which €240,000,000 principal amount is currently outstanding, the "**2012 Notes**" and together with the 2011 Notes, the "**Securities**") to submit offers ("**Offers**") to sell their Securities to Iceland for cash (the "**Invitation**").

Iceland will determine the Purchase Price in respect of each Series of Securities and the aggregate principal amount of each Series of Securities to be purchased based on the modified Dutch auction procedure described in the invitation for offers dated 16 June 2010 (the "**Invitation for Offers**").

The Invitation by Iceland to holders of Securities constitutes a separate Invitation with respect to each Series of Securities. The Invitation is made on the terms and subject to the conditions contained in the Invitation for Offers. Capitalised terms used in this announcement have the meanings ascribed to them in the Invitation for Offers.

Description of the Securities	ISIN/ Common Code	Outstanding Principal Amount	Maturity Date	Minimum Purchase Price	Maximum Invitation Amount
€1,000,000,000 3.750 per cent. Fixed Rate Notes due December 2011	XS0276687984/ 027668798	€823,303,000	1 December 2011	€950.00 per €1,000 principal amount	€300,000,000
€250,000,000 5.375 per cent. Notes due 2012	XS0145825179/ 014582517	€240,000,000	10 April 2012	€962.50 per €1,000 principal amount	

Rationale for the Invitation

Iceland is seeking to repurchase up to €300,000,000 in aggregate principal amount of the Securities. The Securities are currently priced at a discount; this transaction provides liquidity to successful participants in the Invitation. Purchasing these Securities at current market prices is sound debt and liquidity management for the Republic of Iceland.

Modified Dutch Auction Procedure

Iceland proposes to accept for purchase Securities up to a maximum aggregate principal amount of €300,000,000 (the "**Maximum Invitation Amount**") across both Series of Securities combined, subject to its right to purchase more or less than the Maximum Invitation Amount as

described in the Invitation for Offers. Iceland will determine the allocation of funds between the 2011 Notes and the 2012 Notes in its sole discretion.

Iceland will determine a separate Purchase Price for each Series of Securities, which shall not be less than the higher of: (i) the Minimum Purchase Price for the relevant Series of Securities and (ii) the highest Offer Price for the relevant Series of Securities at which the Securities are accepted for purchase by Iceland, that it will pay to holders whose tenders of Securities are accepted for purchase pursuant to the Invitation. In addition, Iceland will pay accrued and unpaid interest for the period from (and including) the most recent interest payment date for the Securities accepted for purchase to (but not including) the Settlement Date ("**Accrued Interest**").

Offers will be accepted as follows: (i) all Non-Competitive Offers for Securities of the relevant Series will be accepted first, subject to possible pro-ration, (ii) all Competitive Offers for Securities of the relevant Series with a price below the applicable Purchase Price will be accepted second; and (iii) all Competitive Offers for Securities of the relevant Series with a price equal to the applicable Purchase Price will be accepted third, subject to possible pro-ration. Holders of Securities whose Offers are accepted by Iceland will receive the Purchase Price of the relevant Series of Securities, together with Accrued Interest, even if they made a Non-Competitive Offer or an Offer specifying a price lower than the Purchase Price of the relevant Series of Securities.

In the event that the aggregate principal amount of the Offers referred to above and accepted in respect of a particular Series is greater than the principal amount which Iceland wishes to purchase, such Offers made (or deemed to be made) at the Purchase Price of the relevant Series of Securities will be accepted on a *pro rata* basis. Each tender of Securities reduced in this manner will be rounded down to the nearest €1,000 principal amount provided that no Offer shall be accepted in this manner where the acceptance of pro-rated Securities under the Invitation would result in a residual amount of Securities totalling less than the applicable Minimum Denomination (which is a principal amount of €1,000 for both the 2011 Notes and the 2012 Notes).

Iceland reserves the right, in its sole and absolute discretion, not to accept any Offers, not to purchase Securities of any Series or to modify in any manner any of the terms and conditions of the Invitation (including, but not limited to, purchasing more or less than the Maximum Invitation Amount, subject to applicable law).

Cash to be Received for Securities

Holders of Securities whose Offers are accepted by Iceland, subject to any pro-ration, will receive in exchange for each €1,000 principal amount of either the 2011 Notes or the 2012 Notes:

- the applicable Purchase Price; and
- an amount in cash in euro equal to the Accrued Interest.

Participating in the Invitation

To tender Securities pursuant to the Invitation, a holder should deliver, or arrange to have delivered on its behalf, through the relevant clearing system and in accordance with the requirements of such clearing system, a valid tender instruction that is received by the Tender Agent by the Expiration Time.

Holders of Securities are advised to check with any bank, securities broker or other intermediary through which they hold Securities whether such intermediary must receive instructions to participate in the Invitation before the deadlines specified in the timeline below.

Expected Transaction Timeline

Wednesday, 16 June 2010 ("Launch Date") Commencement of the Invitation. Invitation for Offers available from the Dealer Manager and the Tender Agent.

2:00 p.m., London time, 22 June 2010, "Expiration Time" The Invitation expires unless Iceland extends it or terminates it earlier in its sole discretion.

At or around 5:00 p.m., London time, 22 June 2010, or as soon as practicable thereafter, "Price Announcement Date" Iceland announces whether it will accept any Offers, and, if so, announces the Purchase Price in respect of each Series of Securities and pro-rata factor, if any, for each Series of Securities.

Iceland also announces the aggregate principal amount of each Series of Securities accepted for purchase (which may be zero) and the aggregate principal amount of each Series of Securities remaining outstanding following the completion of the Invitation.

29 June 2010 (five Business Days after the Price Announcement Date), or as soon as practicable thereafter, "Settlement Date" Iceland pays the Purchase Price in respect of each Series of Securities for any Securities being purchased, plus Accrued Interest.

For further information:

A complete description of the terms and conditions of the Invitation is set out in the Invitation for Offers. Further details about the transaction can be obtained from:

The Dealer Manager:

Citigroup Global Markets Limited

Telephone: +44 (0)20 7986 8969

Toll Free: +1 (800) 558 3745

Collect: +1 (212) 723 6106

Email: liabilitymanagement.europe@citi.com

The Tender Agent:**Citibank, N.A.**

Tel: +44 (0) 20 7508 3867

Email: exchange.gats@citi.com

A copy of the Invitation for Offers is available to eligible persons upon request from the Tender Agent.

The Dealer Manager does not take responsibility for the contents of this announcement and none of Iceland, the Dealer Manager, the Tender Agent, or any of their respective directors, employees or affiliates makes any representation or recommendation whatsoever regarding the Invitation, or any recommendation as to whether holders of Securities should tender Securities in the Invitation. This announcement must be read in conjunction with the Invitation for Offers. No Invitation to acquire any Securities is being made pursuant to this notice. Any such Invitation is only being made in the Invitation for Offers and any such acquisition or acceptance of the Invitation should be made solely on the basis of information contained in the Invitation for Offers. This announcement and the Invitation for Offers contain important information, which should be read carefully before any decision is made with respect to the Invitation. If any holder of Securities is in any doubt as to the action it should take, it is recommended to seek its own advice, including as to any tax consequences, from its stockbroker, bank manager, solicitor, accountant or other independent adviser.

Jurisdictional Restrictions*General*

This announcement and the Invitation for Offers do not constitute an offer to buy or a solicitation of an offer to sell any Securities, and offers of Securities will not be accepted from holders of Securities, in any jurisdiction in which such offer or solicitation is unlawful. In any jurisdiction where the securities or other laws require the offer to be made by a licensed broker or dealer and the Dealer Manager or any of its affiliates is such a licensed broker or dealer in such jurisdictions, the Offer shall be deemed to be made on behalf of Iceland in such jurisdictions by the Dealer Manager or affiliates (where it is so licensed), as the case may be.

The distribution of the Invitation for Offers is restricted by law in certain jurisdictions. Persons into whose possession this announcement comes are required to inform themselves of and to observe all of these restrictions.

The Invitation does not constitute, and may not be used in connection with, an offer to buy Securities or a solicitation to sell Securities by anyone in any jurisdiction in which such an offer or solicitation is not authorised or in which the person making such an offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make an offer or a solicitation. Iceland does not accept any responsibility for any violation by any person of the restrictions applicable in any jurisdiction.

United Kingdom

The communication of this announcement, the Invitation of Offers and any other documents or materials relating to the Invitation is not being made and such documents and/or materials have

not been approved by an authorised person for the purposes of section 21 of the Financial Services and Markets Act 2000. Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom, and are only for circulation to persons outside the United Kingdom or to persons within the United Kingdom falling within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**")) or within Article 34, or any other applicable provision or provisions, of the Order, or to other persons to whom it may lawfully be communicated in accordance with the Order.

Italy

The Invitation is not being made in the Republic of Italy ("**Italy**"). The Invitation and the Invitation for Offers have not been submitted to the clearance procedure of the *Commissione Nazionale per le Società e la Borsa (CONSOB)* pursuant to Italian laws and regulations. Accordingly, holders of Securities are notified that, to the extent holders of Securities are located or resident in Italy, the Invitation is not available to them and they may not make Offers of Securities and, as such, any Offers of Securities received from such persons shall be ineffective and void, and neither this announcement, the Invitation for Offers nor any other documents or materials relating to the Offer or the Securities may be distributed or made available in Italy.

Belgium

This announcement and the Invitation for Offers are not addressed to, and may not be accepted by, any holder of Securities who is resident in Belgium and is not a qualified investor (*investisseur qualifié/gekwalificeerde belegger*) as defined pursuant to Article 10 of the Belgian law of 16 June 2006 on public offerings of investment instruments and the admission of investment instruments to trading on regulated markets, acting on its own account.

France

None of this announcement, the Invitation for Offers, nor any other offering material or information relating to the Invitation, has been submitted for clearance to the *Autorité des Marchés Financiers* and they may not be released, issued, or distributed or caused to be released, issued, or distributed, directly or indirectly, to the public in the French Republic, except to (i) providers of investment services relating to portfolio management for the account of third parties and/or (ii) qualified investors (*investisseurs qualifiés*), other than individuals, all as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French *Code Monétaire et Financier*.

Switzerland

None of this announcement, the Invitation for Offers, nor any other offering material or information relating to the Invitation constitute a public offering of securities pursuant to article 652a or article 1156 of the Swiss Federal Code of Obligations. The information presented in these documents does not necessarily comply with the information standards set out in the SIX Swiss Exchange listing rules.