Icelandair Group hf.

Securities Note – December 2010

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1 RISK FACTORS

1.1 General

Investing in shares entails numerous risks, as the decision to invest is based on expectations, not promises. Investors must rely primarily on their own judgement regarding any decision to invest in any company's shares, bearing in mind the business environment in which the company operates, anticipated profits, external conditions and the risk inherent in the investment itself. Prospective investors are advised to contact experts such as licensed financial institutions to assist them in their assessment of the shares in the Company as an investment option. Investors are furthermore advised to consider their legal status, including taxation issues that may concern the purchase or sale of shares in the Company and seek external and independent advice in that respect.
The risks and uncertainties described below may materially affect the Company and any investment made in its shares. If any combination of these events occurs, the trading price of the shares could decline and investors might lose part or even all of their investment. Additional risks and uncertainties that do not currently exist, that are not presently considered material, or of which the Company is unaware, may also impair the business and operations of the Company. These risks and uncertainties could have a material adverse impact on the business, income, profits, assets, liquidity and share price of the Company.

Prior to making any investment decision regarding shares in the Company, please consider all the information in the Prospectus.

1.2 Risk related to Shares Investment

1.2.1 Stock Returns

Empirical evidence is generally considered to lend support to the fact that in the long run stock returns exceed those of bonds and alternative securities. Yield on stocks consists of dividend payments, on one hand, and the change in share prices on the other, profit or loss resulting from the difference between the price per share when bought and sold. However, stock investment is considered to be a riskier than that of alternative securities. Stock prices are prone to greater volatility and payments of dividends are often uncertain, as is the effect of such payments on the share price. The risk involved in investing in individual companies can be spread by disbursing the risk by investing in different registered companies of different character and markets. Such a strategy can even out individual firm level risk and constrain it close to the average stock market level of risk and returns.[1] Hence, stock investment will always be under the risk and influence of external market related disturbances, e.g. currency exchange fluctuations, changes in general interest rates, market mood, news, speculation, investors´ sentiment, risks accompanying political developments, changes in the economic outlook, etc. Those who intend to invest in the Company should know that there is no guarantee of a return on their investment in the future and investors should bear in mind that even though stocks can provide a good return in general, there is always a risk that an investment in the shares of individual companies will decline in value. It is therefore suggested that prospective investors pay close attention to diversifying their risk and seek investment advice.

1.2.2 Ownership and Control

The structure of shareholder ownership can be a risk factor for investors. The share price could be adversely affected if a potentially large shareholder decides to sell a substantial number of shares or in the case of additional shares being sold in a share capital increase. Note that company ownership can change rapidly and without prior warning. Further a principal-agent problem of ownership and control is a theoretically and practically known phenomenon within large corporations which is based on the concentration of ownership. A high concentration of ownership tends to be at the cost of minority shareholders' rights whereas a low

[1] Investment theory offers the Capital Asset Price Model, CAPM to explain this as a case where the measurement of risk, the beta coefficient, equals one, which is a benchmark of market risk and expected market returns.

concentration and a lack of leading investors could render administrative complications and lead to ill fated decision processes.

Due to the fact that the Company's shares are traded on the NASDAQ OMX Iceland Main Market, those investing in them will thereby become subject to public regulation relating to securities transactions, such as rules relating to takeover bids, public disclosure of ownership stakes, etc.

1.2.3 Dilution

Current shareholders face dilution unless they participate in the share offering as described in *Chapter 8 TERMS AND CONDITIONS OF THE OFFERING*. When new shares are issued, the proportional shareholding of those who already hold shares in the Company will be reduced accordingly unless they acquire the New Shares pro rata to their existing holdings. The purpose of increasing the Company’s share capital is to strengthen the Company’s financial position and broadening the shareholders base. Shareholders may therefore be faced with increased risk to their investment alongside dilution of their existing shares depending on how the added capital will be disbursed. Furthermore, it is open for future shareholder meetings to consider continued equity financing.

1.2.4 Trading in the Secondary Market

Trading with the shares in the secondary market needs to be active and the volume sufficient for investors to profit from their investment. The possibility exists that investors will not be able to sell their shares easily or only at a discount to comparable securities from other issuers.

1.2.5 Liquidation Risk

According to the Bankruptcy Act No. 21/1991, shares are a subordinated claim on the assets of companies. Therefore, in the event of company liquidation, shareholders will receive what is left after all other claims have been met.

1.2.6 Changes in Law

The terms and conditions of the Share capital are based on Icelandic law in force as of the date of this Securities Note. No assurance can be given as to the impact of any possible judicial decision or change to Icelandic law or administrative practice after the date of this Securities Note.

2 PERSONS RESPONSIBLE

2.1 Issuer’s Statement

The CEO and the Board of Directors of Icelandair Group hf., ID No. 631205-1780, registered office Reykjavík Airport, 101 Reykjavík, Iceland, hereby declare that having taken all reasonable care to ensure that such is the case, the information contained in the Prospectus is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 7 December 2010

Reykjavik Airport, 101 Reykjavík, Iceland:

Sigurdur Helgason,

Chairman of the Board of Directors,

Icelandic ID No. 010546-2069

And

Björgólfur Jóhannsson,

CEO,

Icelandic ID No. 280855-3409.

3 THE LISTING ADVISOR

The Listing Advisor, Íslandsbanki, ID No. 491008-0160, registered office Kirkjusandur 155, Reykjavík, Iceland, has been the advisor to the Issuer in the preparation of this Securities Note. The Listing Advisor has not independently verified the information contained herein.

Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Listing Advisor as to the accuracy or completeness of the information contained in this document or any other information provided by the Issuer in connection with the issue of New Shares, which is expected to be at the earliest date, 10 January 2011.

The Listing Advisor has in consultation with the management and the Board of the Directors of Icelandair Group construed this Securities Note and is acting in reliance on the information provided by the management and Board of Directors of Icelandair Group. Íslandsbanki is also handling this public offering.

Íslandsbanki is a shareholder in Icelandair Group with 26.10% share of the common stock in the Company and holds 26.51% of the Company’s voting right as of 3 December 2010. Íslandsbanki is also Icelandair’s Group largest creditor.

4 NOTICE TO INVESTORS

The Securities Note is compiled in accordance with Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (“the Prospectus Directive”). The Prospectus Directive has been implemented into Icelandic law.

Only the Issuer is entitled to procure information about conditions described in this Securities Note. Information procured by any other person is of no relevance in relation to the Securities Note and cannot be relied on.

This Securities Note is construed in connection to a public share offering and issuing of New Shares in Icelandair Group admitted to trading on NASDAQ OMX Iceland Main Market.

The Securities Note is not being distributed, and must not be mailed or otherwise distributed or sent in or into any country in which distribution would require any additional registration measures or other measures to be taken, other than as applicable under Icelandic law and regulations, or would be in conflict with any law or regulation in such country. On the other hand the Securities Note may be passported in accordance with the provisions of the Prospectus Directive into other jurisdictions within the European Economic Area. The share offer in the Company will only take place in Iceland.

The purpose of this Securities Note is to have available information about the Securities in conformity with Prospectus Directive. Any exposure or distribution of the content of this Securities Note, which has been created in accordance to Articles 44 and 45 of the Securities Transactions Act No. 108/2007, is forbidden. Therefore, any exposure or distribution of the content of this Securities Note, for any other purpose, is forbidden, without a prior written consent of the Issuer.

No person is authorised to give information or to make any representation in connection with the New Shares other than as contained in the Prospectus. If any such information is given or made, it must not be relied upon as having been authorised by the Company or any of the Company’s respective affiliates or advisers. Neither the delivery of this Securities Note, nor any sale made hereunder shall under any circumstances imply that there has been no change in the Company’s affairs or that the information set forth in this Securities Note is correct as of any date subsequent to 7 December 2010.

This Securities Note should by no means be viewed or construed as a promise by the Company, or other parties of future success either in operations or return on investments. Investors are reminded that investing in securities entails risk, as the decision to invest is based on expectations and not promises. Investors must rely primarily on their own judgement regarding any decision to invest in the Company’s securities, bearing in mind inter alia the business environment in which the Company operates in, anticipated profits, external conditions and the risk inherent in the investment itself. Prospective investors are advised to contact experts, such as licensed financial institutions, to assist them in their assessment of the securities issued by the Company as an investment option. This Securities Note does not constitute legal, financial or tax advice. Investors are furthermore advised to consider their legal status, including taxation issues that may concern the purchase or sale of the Company’s securities and seek external and independent advice in that respect.

The Prospectus has been prepared to provide clear and thorough information on the consolidated company Icelandair Group. Investors are encouraged to acquaint themselves thoroughly with these documents. They are advised to pay particular attention to *Chapter1 RISK FACTORS* of both this Securities Note and the Icelandair Group Registration Document dated 28 October 2010. All of the abovementioned documents which are, Icelandair Group Registration Document dated 28 October 2010 and this Securities Note that contains an update of the Registration Document from 28 October 2010 and a Summary dated 7 December 2010, are available for viewing for 12 months from the date of the Prospectus and may be obtained at the Company’s registered office at Reykjavik Airport, 101 Reykjavík, Iceland. They will also be available on the Company’s website: http://icelandairgroup.com/.

Notwithstanding a special statement to the contrary, references to any laws, acts or regulations are references to acts passed by the Icelandic parliament and regulations issued by Icelandic governmental agencies unless otherwise clear from the context.

The public share offering and the admission to trading will proceed pursuant to Icelandic law and regulations. NASDAQ OMX Iceland has, in its authority under agreement between it and the Icelandic Financial Supervisory Authority, scrutinised and approved this Securities Note, which is published in English only.

In the event of any significant new factor, material mistake or inaccuracy relating to information included in the Prospectus, which could be capable of affecting the assessment of the New Shares, the Issuer will, in accordance with Article 46 of the Securities Transaction Act No. 108/2007, publish a supplement to the Prospectus which will be published with the same process as this Prospectus. The supplement shall be approved within seven business days and published in the same manner as this Prospectus. In the event of the above mentioned, the Issuer will also issue an announcement that will be made public.

5 REFERENCES

References to “Icelandair Group”, “the Issuer”, “we”, “us”, “the Group” or “the Company” in this Securities Note shall be construed as referring to Icelandair Group hf., Icelandic ID No. 631205-1780, unless otherwise clear from the context.

References to “the New Shares” in this Securities Note shall be construed as referring to 500,000,000 by up to 1,059,000,000 new shares in Icelandair Group hf. for ISK 2.5 per. share, offered to shareholders in the Company, employees and the general public and will be admitted to trading on the Main Market of NASDAQ OMX Iceland, unless otherwise clear from the context. Refer to *Chapter 8 TERMS AND CONDITIONS OF THE OFFERING* for further information about the New Shares and the share offering which will commence on 8 December 2010.

References to “FME” in this Securities Note shall be construed as referring to the Financial Supervisory Authority in Iceland, unless otherwise clear from the context.

References to the “European Union” or “EU” in this Securities Note shall be construed as referring to the member states of the European Union, unless otherwise clear from the context.

References to “Glitnir Bank” shall be construed as referring to Glitnir Bank hf., incorporated under the laws of Iceland, ID No. 550500-3530. On 8 October 2008 in accordance with the authority provided to the FME by Act. No. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc., the FME appointed the Resolution Committee of Glitnir Bank. On this date the Resolution Committee took over all authority of the Board of Directors of Glitnir Bank hf. in accordance with the articles of Act No. 2/1995 on Public Limited Companies, including oversight of all treatment of its assets, as well as the handling of all other business. References to “the Resolution Committee of Glitnir Bank” shall be construed as referring to the Resolution Committee of Glitnir Bank hf., unless otherwise clear from the context.

We present our financial statements in Icelandic kronur, and references in this Securities Note to “ISK” refer to the currency of Iceland. References to “USD” refer to the currency of the United States of America, and references to “Euro” and “EUR” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended, unless otherwise clear from the context.

References to “the ISD” in this Securities Note shall be construed as referring to the Icelandic Securities Depository, i.e. Verdbréfaskráning Íslands hf., incorporated under the laws of Iceland, ID No. 500797-3209, unless otherwise clear from the context. Eignarhaldsfélagid Verdbréfathing hf., incorporated under the laws of Iceland, ID No. 650602-4390, the sole owner of Verdbréfaskráning Íslands hf., is currently fully owned by NASDAQ OMX Group inc., which is the world´s largest exchange company.

References to “the Listing Advisor” and “Íslandsbanki” in this Securities Note shall be construed as referring to Íslandsbanki hf., ID No. 491008-0160, unless otherwise clear from the context.

References to “NASDAQ OMX Iceland” in this Securities Note shall be construed as referring to NASDAQ OMX Iceland hf., incorporated under the laws of Iceland, ID No. 681298-2829, part of the NASDAQ OMX Group inc.; it shall also refer to the former names of NASDAQ OMX Iceland such as OMX Nordic Exchange Iceland hf. and OMX ICE, unless otherwise clear from the context.

Reference to “the Main Market NASDAQ OMX Iceland” in this Securities Note shall be construed as referring to the Main Market at NASDAQ OMX Iceland hf., it shall also refer to the former names of the Main Market of NASDAQ OMX Iceland such as OMX ICE Main Market, unless otherwise clear from the context.

References to “the Prospectus” in this Securities Note shall be construed as referring to the Prospectus, comprising of a Registration Document dated 28 October, a Summary dated 7 December 2010 and this Securities Note which contains an update of the Registration Document from 28 October 2010, unless otherwise clear from the context.

References to “SPW ehf.” in this Securities Note shall be construed as referring to a special purpose vehicle, incorporated under the laws of Iceland, ID No. 530910-0590 whose registered office is at Sóltún 26, 105 Reykjavík, unless otherwise clear from the context. SPW ehf. common stock is divided between two shareholders who are Íslandsbanki with 71.1% and Glitnir Bank who holds the remaining 28.9% share in the company.

6 KEY INFORMATION ON THE ISSUER

6.1 Working Capital Statement

The Chairman of the Board of Directors and the CEO on behalf of the Issuer declare that in their opinion the Issuer's working capital is sufficient for the Issuer's present requirements and the next 12 months.

6.2 Capitalisation and Indebtedness

6.2.1 Information on Capital Resources

The following table sets forth the Group's capitalisation and indebtedness as of 30 September 2010. The following table does not reflect the shares issued on 5 November 2010. See *Chapter 9.7 Share Capital and Major Shareholders* for information relating to the Group's issued share capital and number of outstanding shares. Investors should read this table in conjunction with the Group's consolidated financial information (and the notes thereto).

Item 1. Capitalisation and indebtedness of Icelandair Group as of 30 September 2010.

Capitalization and Indebtedness (mISK)		**30 September 2010**
Total current liabilities		**55,607**
Guaranteed*	18,227	
Secured**	4,104	
Unguaranteed/unsecured	33,276	
Total non-current liabilities		**18,591**
Guaranteed*	0	
Secured**	9,680	
Unguaranteed/unsecured	8,911	
Shareholders' equity		**16,969**
Share capital	975	
Share premium	25,450	
Fair value and other reserves	6,012	
Retained earnings	-15,508	
Minority interest	40	
Total capitalization on 30 September 2010		**91,167**

**** Represents a general pledge in unpledged assets of the Group***

***** Represents a direct pledge in certain real estates and aircraft***

The table above does not reflect the issue of approximately ISK 2.2 billion shares in Icelandair Group in the share offering at the subscription price indicated in the Icelandair Group Prospectus dated 28 October 2010, the debt-to-equity conversion and the intended application of the net proceeds of approximately ISK 5.5 billion. That share offering and the debt-to-equity conversion was completed in November 2010 and on 3 December 2010 the share capital is 3,941,000,000 shares. Also, the table does not take into account the current public offer of New Shares where the Company hopes to increase the share capital by between 500 million and 1,059 million shares.

The table on capitalisation represents the current portion of long-term loans, plus short-term liabilities excluding aircraft leases. Total non-current liabilities include long-term interest-bearing debt which amounts to approximately ISK 11.7 billion. The remainder consists of prepayments (ISK 2.1 billion) and long term payables (ISK 4.3 billion) and deferred income tax liability (ISK 0.6 billion). Total current liabilities consist of interest bearing loans and borrowings (ISK 24.4 billion), trade and other payables (ISK 16.9 billion), liabilities held for sale (ISK 5.6 billion) and deferred income (ISK 8.7 billion). Aircraft financing constitutes 40% of the total interest-bearing debt and is solely of a long-term nature and financed by foreign banks. Apart from that source of financing, the interest-bearing debt stems from domestic bank borrowing. Further details of the breakdown of loans can be found in the table below.

Item 2. Net indebtedness of Icelandair Group as of 30 September 2010

Net indebtedness (mISK)		**30 September 2010**
a) Cash	7,182	
b) Cash equivalents	0	
c) Trading securities	200	
d) Liquidity (a) + (b) + (c)		**7,382**
e) Current financial receivables		0
f) Current bank debt	18,227	
g) Current portion of long term debt	4,442	
h) Other current financial debt	1,733	
i) Current financial debt (f) + (g) + (h)		**24,402**
j) Net current financial indebtedness (i) - (e) - (d)		**17,020**
K) Non-current bank debt	9,684	
l) Non-current bonds issued	1,995	
m) Other non-current loans	11	
n) Non-current financial indebtedness (k) + (l) + (m)		**11,690**
Net financial indebtedness (j) + (n)		**28,710**

The cash represents the net figure derived from the consolidated cash flow statement of the Group as published on 15 November 2010.

The capital profile above is based on Icelandair Group’s Financial Statements as of 30 September2010 and before the financial restructuring of the balance sheet. A part of the completion of the financial restructuring was a share capital increase of approximately ISK 9.2 billion (ISK 2,941 million in share capital and ISK 6,212 in share premiums) where approximately ISK 5.5 billion was paid with cash and approximately ISK 3.6 billion was debt-to-equity conversion. Additionally, most of the Group’s interest-bearing loans were restructured.

The Group has a total of approximately ISK 30.5 billion in contingent indebtedness in the form of lease obligations due to aircraft financing. The lease obligations are off-balance-sheet items that are not reflected in the balance sheet, but are directly payable through an amortisation schedule, and they are not reflected in the maturity profile of the Group. Furthermore, the Group has a contingent liability stemming from the commitment to acquire four 787-800 Dreamliner aircraft, see note 46 in the consolidated financial statement on 31 December 2009 for further information.

The Group had a total of ISK 6.7 billion in indirect indebtedness at year end 2009, through off-balance-sheet items such as lease obligations and financial guarantees. The only financial guarantee for third parties is the USD 17.7 billion guarantees to SmartLynx as of 30 September2010.

After the divestment of SmartLynx, Icelandair Group will continue to guarantee USD 17.7 million to SmartLynx. The guarantee will gradually expire until 1 January 2014. The guarantees for SmartLynx are in regard of lease payments on aircraft. If SmartLynx cannot pay its lessors, the guarantee will fall on Icelandair Group. That could happen if SmartLynx could not lease its unused aircraft to another company. Loftleidir has a contract with SmartLynx regarding the lease of two aircraft, where Loftleidir leases two aircraft from SmartLynx. The contracts are on an arm’s length basis and they will not be affected by the divestment of SmartLynx from the Group.

The expected net indebtedness after the restructuring is shown in the following table. Please note that the financial information on net indebtedness after the financial restructuring is not audited and is based on information from the management of Icelandair Group.

Item 3. The table shows net indebtedness after financial restructuring

Net indebtedness (mISK)		30 September 2010
a) Cash	12,918	
b) Cash equivalents	0	
c) Trading securities	200	
d) Liquidity (a) + (b) + (c)		**13,118**
e) Current financial receivables		0
f) Current bank debt	0	
g) Current portion of long term debt	3,200	
h) Other current financial debt	0	
i) Current financial debt (f) + (g) + (h)		**3,200**
j) Net current financial indebtedness (i) - (e) - (d)		**-9,918**
K) Non-current bank debt	19,686	
l) Non-current bonds issued	1,995	
m) Other non-current loans	11	
n) Non-current financial indebtedness (k) + (l) + (m)		**21,692**
Net financial indebtedness (j) + (n)		**11,774**

Item 3 shows the effects of the restructuring on the Company‘s net indebtedness after financial restructuring as of 30 September 2010. This information and the pro forma balance sheet shown in *Chapter 9.9 Pro Forma Balance Sheet* addresses a hypothetical situation and, therefore, does not represent the company's actual financial position or results.

The information provided in this chapter is derived from the last published financial information of the Issuer and information related to the financial restructuring which have not been audited and is based on information from the management of Icelandair Group. As of the date of this Securities Note the Issuer declares that there have been no material changes since the last published financial information.

6.3 Interest of Natural and Legal Persons Involved

Attention is drawn to the fact that Íslandsbanki who is Listing Advisor to the Issuer and is handling this share offer, directly holds 1,028,492,387 shares in the Company which amounts to 26.1% of the total number of shares in the Company. Íslandsbanki is also Icelandair's Group largest creditor.

Glitnir Bank holds 182,205,000 shares in the Company which amount to 4.62% of the total number of shares in the Company. According to publicly available information, 95% of the common stock of Íslandsbanki is held by foreign creditors of the Resolution Committee of Glitnir Bank.

6.4 Reasons for the Issue and Use of Proceeds

The purpose of the offer is to strengthen the Company's financial position and broadening the shareholders base.

Icelandair Group announced on 14 and 15 June 2010 that the Enterprise Investment Fund (EIF) and the Pension Fund of Commerce (PFC) had entered into a binding agreement with the Company to the effect that the two funds would invest in Icelandair Group for ISK 4 billion at a share price of ISK 2.5. In the agreement, EIF undertook to contribute ISK 3 billion, thereby acquiring 1.2 billion shares in the Company. The PFC undertook to contribute ISK 1 billion, thereby acquiring 400 million shares in the Company.

The agreements were concluded with the following conditions:

- Positive results of Icelandair Group due diligence.
- Exemption of the EIF by the Financial Supervisory Authority (FME) from an obligatory take-over of the Company.

- That Icelandair Group raised a minimum ISK one billion in market value through the sale of shares to other investors.

All of the above conditions were met and Icelandair Group announced on 12 August 2010, that investors had subscribed to a total of ISK 5,552,500,000 at market value in new share capital, which corresponds to 2,221,000,000 shares in Icelandair Group. The net proceeds from the share offering was ISK 9,000,831,250; the net cash proceeds from the share offering was ISK 5,400,831,250.

The agreement included the conversion by Icelandair Group’s two largest creditors of debt in the amount of ISK 3.6 billion into shares based on a share price of 5 per share, which corresponds to a subscription to 720 million shares. The total increase in share capital amounted to 2,941,000,000, shares at nominal value.

In addition, debt in the amount of ISK 7.6 billion, together with assets in a corresponding amount, was transferred to a separate holding company owned by Íslandsbanki and Glitnir Bank (SPW ehf.). Assets pertaining to what the Board of Directors had defined as core operations, which mainly consist of Icelandair ehf., Air Iceland ehf., Iceland Travel ehf. (Vita), Icelandair Cargo ehf., Icelandair Hotels ehf., Icelandair Ground Services ehf., Loftleidir-Icelandic ehf. and Icelandair Shared Services (Fjárvakur – fjármálathjónusta ehf.), will remain in Icelandair Group.

After the completion of the Company’s financial restructuring mentioned above the Company’s Board of Directors decided on 17 November 2010 to launch a public share offering to increase the Company’s current share capital by 500 million to 1,059 million shares. The Company will not issue New Shares if it receives fewer subscriptions than 500 million shares.

It was decided that the offering price will be ISK 2.5 per share and all employees of Icelandair Group and its subsidiaries as of 31 October 2010, except Blubird Cargo ehf. and SmartLynx AOC, shareholders according to a shareholders list at the end of 17 November 2010 will have priority to a portion of the shares offered but the general public will also have right to participate. Refer to *Chapter 7.7 New Issues* for further detail about the Board of Directors decision and *Chapter 8.1 Details and Process of the Issue* regarding terms and conditions of the offering.

On 7 December the Company’s Board of Directors made public an announcement regarding detailed information about terms and conditions of the share offer which will commence on 8 December 2010. The announcement stipulates the conditions in *Chapter 8 TERMS AND CONDITIONS OF THE OFFERING*.

The estimated net proceeds of the share offering from 8 December to 23 December 2010 will be ISK 2,594,523,750 if all the New Shares in the share offer will be sold.

7 INFORMATION CONCERNING THE SECURITIES TO BE OFFERED

7.1 Total Share Capital

The total issued share capital, as of the date of this Securities Note, is ISK 3,941,000,000 in nominal value, divided into an equal number of shares each with a nominal value of ISK 1.0. The Group's share capital consists of one class of shares and each issued share carries one vote. The shares have been created in conformity with Act No. 2/1995 on Public Limited Companies.

After the share offer is concluded, the total number of issued shares in the Company will be 4,441,000,000 to 5,000,000,000, all of the same class and all issued in ISK.[2] The Company will not issue New Share if it receives fewer subscriptions than 500 million shares.

7.2 Type and Class of Shares

The Company's share capital consists of one class of shares, each share having a nominal value of ISK 1.0. The ISIN number of the shares is IS0000013464. The shares' ticker symbol in the trading system of the NASDAQ OMX Iceland hf. is ICEAIR.

7.3 Applicable Law and Jurisdiction

The New Shares issue is subject to laws in Iceland. The Company is a public limited company, registered in Iceland and operates pursuant to Act No. 2/1995 on Public Limited Companies. All shares in the Company have been issued in conformity to the Act No. 2/1995 on Public Limited Companies and other relevant domestic legislation. Any dispute arising in relation to the issue of the New Shares shall be brought before the district court in Reykjavík.

7.4 Form

The Company's shares are all issued electronically at the ISD, which is located at Laugavegur 182, 105 Reykjavík, Iceland. All shares are registered in a book-entry form, under the name and Icelandic ID No. of the relevant shareholders or their nominees.

The electronic registration of securities is governed by the Act on Electronic Registration of Titles to Securities, No. 131/1997 and Regulation No. 397/2000, which is issued in accordance with that Act. A printout from the ISD on the ownership of shares in the Company is considered a valid proof of registration of the shares. Registry of title in a securities depository constitutes full proof of title to shares in the Company and adequate basis for entry in the register of shares. Dividends and announcements shall at any given time be sent to the party registered in the Company's share register as owner of the shares in question. The Company shall be in no way liable if payments or announcements do not reach their recipients because a change of address has not been notified.

7.5 Share Rights

Information about the Company's share rights can be found in the articles in section 2 of the Company's Articles of Association. The Company's Articles of Association can be viewed on the Company's website, http://www.icelandairgroup.com/about-us/corporate-governance/articles-of-association/.

[2] Attention is drawn to the fact that according to Article 11.1 of the Company's Articles of Association, votes are not attached to shares owned by the Company. That provision in the Articles of Association is in accordance with paragraph 3 of Article 82 of Act No. 2/1995 on Public Limited Companies.

All the shares of the Company carry equal rights. The Company's shares carry no special rights and no general restrictions are placed on them. A party acquiring a share in the Company cannot exercise its right as a shareholder unless its name has been registered in the share registry or it has announced and proven its ownership of the share.

Owners of the Company's share capital have the right to vote at shareholders' meetings, the right to receive dividends when declared, enjoy pre-emptive rights to new shares, unless waived, and the right to a share in any surplus in case of liquidation, all according to share ownership, statutes and the Company's Articles of Association in effect at any given time. Shareholders in the Company are not required to suffer redemption of their shares except as provided by law. The shares in the Company may be pledged or sold without restriction, except as otherwise provided by law.

In the case of an increase in share capital, shareholders enjoy pre-emptive rights to new shares, in proportion to their holdings in the Company and within the time limits specified in decision to increase the share capital. If a shareholder does not exercise his or her pre-emptive rights in full, other shareholders shall be entitled to increase their subscription rights. A shareholders' meeting may, by a 2/3 majority vote, decide to waive pre-emptive rights on increases in share capital, provided that there is no discrimination. In the case of a share capital increase that follows the conversion of convertible bonds into stock or according to a stock option plan for key managers, which could be implemented into the Company's Article of Association, shareholders could be burdened to waive their pre-emptive rights to the increase. At the date of this Securities Note the Company's Articles of Association do not contain provisions regarding convertible bonds or a stock option plan for key managers.

Article 15.1 of the Articles of Association of the Company, stipulates that the Board of Directors of the Company is authorised to increase the share capital of the Company in the following manner: a) The share capital of the Company may be increased by up to ISK 4,000,000,000 (four billion Icelandic kronur) nominal value with subscription of new shares[3]. b) This authorisation is valid until 31 December 2010. c) The nominal value of the shares which the shareholders may subscribe to is one krona. The subscription rate may be decided with by means of invitation to tender new shares. d) The Board of Directors of the Company may limit the priority rights of shareholders to subscribe to new shares. e) Shareholders may pay, partially or in full, for the shares that they subscribe to, by means of set-off of indebtedness, as may be further decided by the Board of Directors. A specialised report due to payment by means of set-off of indebtedness shall not be prepared. Instead the Board of Directors shall prepare a statement regarding the value of the payment, in accordance with Article 6 c of Act No. 2/1995 on Public Limited Companies. f) The new shares shall grant rights within the Company as of the date of registration of the increase of share capital. The Board of Directors shall lay down further rules relating to respite for subscription and payments for shares. A decision of the Board of Directors to increase the share capital shall be approved by an increased majority of the board—four out of five members.

Refer to *Chapter 7.7 New Issues* to view the decision of the Company's Board of Directors regarding the public offering that will commence on 8 December 2010.

The Company and its subsidiaries are subject to legal restrictions on the amount of dividends that can be paid to shareholders according to Act No. 2/1995 on Public Limited Companies. There are no special restrictions or procedures regarding dividend payments to non-resident shareholders. There is no dividend policy in place for the Company. The Company has not paid dividends for the financial years ended 31 December 2007, 2008, 2009 or Q1- Q3 2010.

Rights to electronic shares must be registered at the ISD if they are to enjoy legal protection against legal executions and disposal by means of an agreement. It is forbidden to issue share certificates for registered rights according to an electronic share or endorse them, and such transactions are void. Registration of the ownership of an electronic share at the ISD, subsequent to a Securities Depository final entry, formally gives a registered owner legal authorisation to the rights for which he is registered. Priority of incompatible rights is determined by

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[3] If the maximum number of New Shares offered in the share offering the authorisation in article 15.1 of the Company's Articles of Association regarding the share capital increase will be fully exhausted. *See Chapter 9.1 Documents on Display and Incorporated by Reference*

the chronological order of requests from the Banks' Data Central (*Reiknistofa bankanna*) reaching the Securities Depository. No redemption provisions, conversion provisions or special restrictions regarding dividends have been attached to the securities.

If subscription will be for 1,059,000,000 New Shares in the current share offering the authorisation in article 15.1 a) will be exhausted.

7.6 Dividend rights

Upon paying dividends, Icelandair Group practice is to pay dividends to those parties, registered as shareholders, in the shareholders' register at the third business day after the Annual General Meeting with ex-date the next business day after the AGM, unless the Company has received notification of the assignment of the dividend upon the transfer of the shares. Considering clearance procedures on the NASDAQ OMX Main Market (T+3), trades with the Company's shares need to take place at the date of the AGM if parties are to be eligible for payment of dividends.[4]

Dividends are deposited in shareholders' bank accounts, which they have specified as their accounts for dividends payments and are linked to their custody accounts.

Shareholders can collect their dividends at Icelandair Group office within four years after the due date of payment. Four years after the due date, the right to collect the dividend payments lapses in accordance with Act No. 150/2007, on the Lapse of Debts and other Claim Rights.

Icelandair Group has no special restriction or procedures regarding dividend payment for non-resident shareholders.

Icelandair Group does not have any policy regarding dividend payments. The Company has not paid dividend for any of the financial years covered in the Prospectus.

An annual general meeting shall be held within eight months from the end of the financial year.

7.7 New Issues

At a shareholders' meeting held on the 6 August 2009, the shareholders of the Issuer granted the Board of Directors the authority to increase the Issuer's share capital by up to 4,000,000,000 nominal value for the purpose of strengthening the Company's financial position.

Icelandair Group announced on 12 August 2010 that investors had subscribed to a total of ISK 5,552,500,000 at market value in new share capital, which corresponds to 2,221,000,000 shares in Icelandair Group. Íslandsbanki and Glitnir Bank also converted debt in the amount of ISK 3.6 billion into shares based on a share price of ISK 5.0 per share, which corresponds to 720,000,000 shares. The total increase in share capital thus amounted to 2,941,000,000 shares at nominal value.

On 9 September 2010, the Board of Directors used the authorisation from the shareholders' meeting on 6 August and approved the issue of shares in the amount of 2,941,000,000 in accordance with Article 15 of the Articles of Association. The total share capital of the Company is now 3,941,000,000.

Furthermore, the Board of Directors decided on the Board meeting on 9 September to authorise Íslandsbanki and Glitnir Bank to pay in full for shares in the nominal value of ISK 720,000,000 by means of a set-off of indebtedness in accordance with Article 15.1(e) of the Company's Articles of Association. The Board of Directors prepared a statement regarding the value of the payment, in accordance with Article 6 (c) of Act No. 2/1995 on Public Limited Companies. In the statement the Board of Directors declared that the debt-to-equity

[4] Dividend proposals by NASDAQ OMX Iceland: http://nasdaqomx.com/digitalAssets/58/58629_Dividend_proposal_at_AGM.pdf.

conversion were in accordance with Article 5 of the Act No. 2/1995 on Public Limited Companies and takes note of the Annual Accounts Act No. 3/2006 and relevant international accounting standards. Article 5 of the Act No. 2/1995 on Public Limited Companies states that payment with other valuables than cash shall have financial value and cannot be in the form of duty to complete a task or provide services. The Board of Directors concluded that the debt-to-equity conversion was in full compliance with Article 5 of the Act No. 2/1995 on Public Limited Companies. The Board of Directors declared that no new information had come to light that could alter the original evaluation of the debt-to-equity conversion.

Íslandsbanki and Glitnir Bank converted debt in the amount of ISK 3,600,000,000 into shares at the price of ISK 5 per share. The Board concluded that the conversion had been appropriately evaluated and according to Article 6 (c) of the Act No. 2/1995 on Public Limited Companies. It was the evaluation of the Board of Directors that no new information had come to light that could affect the original evaluation of the debt-to-equity conversion.

The Company's Board of Directors decided on 17 November 2010 to use the previous authorisation as mentioned above and increase the share capital of the Company in a public share offering for the previous authorisation had not been fully exhausted. The Company's Board of Directors unanimously agreed on a proposal regarding details of the public offering and concluded that:

- The share offering shall be public and open to all investors.
- The share price will be ISK 2.5.
- Shareholders at the end of the day of 17 November 2010 shall have priority to 799,000,000 shares.
- Current employees of the Group and its subsidiaries shall have priority to 160,000,000 shares.
- Minimum subscription will be 10,000 shares.
- The Company's Board of Directors is allowed to decline subscriptions partly or in full at their discretion.
- Assignment of subscription right is prohibited.
- The number of shares offered will be 500,000,000 to 1,059,000,000 shares.

On 7 December the Company's Board of Directors made public an announcement regarding detailed information about terms and conditions of the share offer which will commence on 8 December 2010. The announcement stipulates the conditions in *Chapter 8 TERMS AND CONDITIONS OF THE OFFERING*.

7.8 Transferability of the Shares

There are no limitations on the transferability of the Issuer's shares, and shareholders may pledge their shares unless prohibited from doing so by law. Only general legislative rules apply to the transfer of shares in the Company. Nevertheless, it should be noted that individual shareholders may have agreed that their shares are subject to certain restrictions.

The Enterprise Investment Fund, Íslandsbanki and Glitnir Bank agreed in Company's private tender that was completed in November 2010 to enter into lock up agreement for a period of 24 months from the date of issue of the shares which was on 5 November 2010. The agreement contains the following exemptions:

a) Each of Íslandsbanki and Glitnir Bank may at their own discretion sell shares in the Company amounting up to ISK 40 million in nominal value every three months.
b) Each of Íslandsbanki and Glitnir Bank may sell their current shareholding to professional investors, either as a whole or in parts. If the holding is sold in parts, the underlying stock in each transaction shall not be less than 3% of the share capital of the Company.
c) There are no sale limitations on either party—neither Íslandsbanki nor Glitnir Bank—should the total number of shares in their possession go below 3% of the common stock in the Company.

7.9 Mandatory Takeover Bids and/or Squeeze-out and Sell-out rules

7.9.1 Mandatory Bid

The Issuer is subject to Chapter X of the Securities Transactions Act No. 108/2007, legislation which is based on Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids (the *Takeover Directive*). Under the Securities Transactions Act, if a party, directly or indirectly, acquires control of the Issuer, it is obliged to make an offer, within four weeks, to the other shareholders to acquire their shares at a price not less than the highest price paid for the shares by the acquirer or its concert parties during the previous six months. ″Control″ means that the party and any party acting in concert with it has acquired (i) in total at least 30% of the voting rights in the Company, (ii) under an agreement with other shareholders, the right to control at least 30% of the voting rights in the Company, (iii) the right to appoint or dismiss the majority of the Board of Directors of the Company.

The FME decided to grant Íslandsbanki a conditional exemption from a mandatory takeover bid in accordance with paragraph 5 of Article 100 of the Icelandic Securities Transaction Act No. 108/2007, despite becoming in indirect control of the Company following a subsequent enforcement action. Íslandsbanki was, both as a creditor and large shareholder of Icelandair Group, required to dispose of holdings in excess of maximum threshold according to Article 100 of the Icelandic Securities Transactions Act No. 108/2007 as soon as possible and within 12 months from the date of the decision, with a possibility to extend for 6 months, which was applied for and granted after the 12 months limit expired.

This enforcement action was prompted by the inability of a number of shareholders—including leading shareholders in the Company—to meet margin calls in respect of loans extended to these parties by the bank. The FME considered that the bank fulfilled conditions that would be granted to a pledge, those conditions are:

- When the guarantee was granted, conditions did not give rise to indications that the pledgee should have known would be likely to result in a margin call.
- A margin call is necessary for reasons that concern the pledger.
- A margin call is conducted with intent to re-sell. The FME grants the creditor time limits for the re-sale.

The exemption was granted with the following conditions.

- In light of the financial restructuring within Icelandair Group, the FME decided to grant Íslandsbanki a generous continuance, i.e. 12 months which was extended to 18 months. Íslandsbanki shall sell to the amount that mandatory takeover is no longer applicable in accordance with Article 100 of the Icelandic Securities Transactions Act.
- Íslandsbanki was only authorised to apply up to 30% of its effective voting rights in the Company.
- Íslandsbanki, in cooperation with the Company, would inform FME on a regular basis of the progress of the financial reorganisation of the Company.

Notice is drawn to the fact that the Íslandsbanki's stake in the Company is now 26.1%. Consequently, the decision discussed above has no merit at the date of this Securities Note.

On 6 August 2010 the Enterprise Investment Fund (EIF) requested an exemption for an obligatory takeover of Icelandair Group in accordance with Article 100 of the Securities Transactions Act-No. 108/2007. The FME decided to grant the EIF the exemption in accordance with section 1.a) of Article 100 of the Securities Transactions Act. The article in question authorises, in exceptional circumstances, exemption from the obligation to make a mandatory bid when an investor owns 30% or more of the outstanding stock of a publicly listed company. This exemption is applicable if the purpose is to pave the way for financial restructuring of companies experiencing financial difficulties.

This exemption was a condition to the EIF's subscription to 1,200,000,000 shares in the Company at the price of ISK 2.5. As this exemption has been granted by the FME, and other conditions of the EIF's undertaking dated 14 June 2010 with Icelandair Group in respect of the subscription have been fulfilled, EIF's commitment is now firm and binding. Accordingly, following the issue of the shares, the EIF is allowed to own 32.5% of the common stock in the Group.[5] The threshold according to Article 100 of the Securities Transactions Act is ownership of 30% of common stock in public companies. The EIF was authorised by the FME to own 32.5% of the common stock of Icelandair Group. The FME granted the EIF exemption from a takeover bid with the following conditions:

- The EIF shall, as soon as possible (and within 12 months), by selling shares, no longer have direct or indirect control of the Group according to Article 100 of the Securities Transactions Act. This exemption will be valid as soon as the EIF becomes a shareholder in the Company.
- The EIF voting rights are capped at 30% of the common stock (i.e. the EIF can utilise up to 30% of the active voting rights). Active voting rights refer to total number of voting shares less than those shares held by the EIF that become inactive due to this decision.
- The EIF shall, in cooperation with the Company, inform the FME on a regular basis of the progress of the financial reorganisation of the Company. The FME imposed the condition on the EIF to notify the FME with at least one week's notice of any plans to re-sell.

Notice is drawn to the fact that the EIF holds 30.45% share in the Company on 3 December 2010 and is the largest shareholder.

All decisions of the FME are available on www.fme.is.[6]

7.10 Squeeze-out / Sell-out

Under Article 24 of Act No. 2/1995 on Public Limited Companies, a shareholder holding more than 90% of a company's capital and controlling an equivalent proportion of its voting rights may decide that other shareholders in the company shall be subject to mandatory redemption of their shares. In cases where a shareholder owns more than 90% of the share capital in a company and controls corresponding voting powers, each individual minority shareholder may require redemption from the shareholder. No single shareholder holds more than 90% of the share capital or voting rights of Icelandair Group.

Shareholders are not obligated, neither by the Company's Articles of Association nor changes to them, to accept their shares being redeemed, except as provided by law.

7.11 Public Takeover Bids by Third Parties

The Company's shares were listed and admitted to trading on the OMX ICE Main Market (currently known as NASDAQ OMX Iceland Main Market) on 12 February 2007. Since its listing, no takeover bid has been made in respect of shares in the Company.

[5] Notice is drawn to the fact that the EIF owns 30.45% of the common stock of the Company since the issue of shares and not 32.5% as the FME authorised.

[6] Direct links to the decisions in question are, for Íslandsbanki - http://www.fme.is/lisalib/getfile.aspx?itemid=6347 and http://www.fme.is/lisalib/getfile.aspx?itemid=7249; and the EIF - http://www.fme.is/lisalib/getfile.aspx?itemid=7358.

7.12 Tax Issues

7.12.1 General

The following is a description of the relevant Icelandic tax consequences for shareholders, based on the rules and regulations in force at the date of this Securities Note. It is therefore subject to any changes in law occurring after such date. The following discussion is meant to provide general guidelines and does not deal with all aspects that could be important for potential investors. It focuses on individual shareholdings and shareholdings of limited liability companies, and does not cover tax issues in other cases, for instance where shares are held as assets in business operations by individuals or by a partnership. The tax treatment of holders of shares depends in part on their particular circumstances. Each shareholder should therefore consult a tax advisor regarding the tax consequences which may arise for such person as a result of buying or selling shares in the Company, including the applicability and effect of foreign income tax regulations and provisions contained in treaties to avoid withholding tax and double taxation. Foreign parties should obtain information on a possible double taxation treaty with their country of residence. If such a treaty has been made, the party should establish which country has the right to tax. The following chapters do not address foreign tax laws.

7.12.2 Tax Considerations for Residents of Iceland

7.12.2.1 Taxation of Dividends

For individuals, capital income such as dividends is taxed at the rate of 18%.

Dividends paid to limited liability companies constitute taxable income according to the Income Tax Act No. 90/2003. The same act however permits limited liability companies to deduct from their income, including their dividend income, any sum which they may have been paid in dividends. Such a deduction is conditioned to that the limited company owning at least a 10% share in the Company. In fact received dividends are therefore not taxable for such shareholders.

The Company is obligated to withhold 18% tax on paid out dividends in the case of individuals and resident companies. Companies may have a deduction of the same amount as the dividends received if the companies own at least 10% share in the Company and consequently there is no effective tax burden for such companies ("dividend received deduction"). The 18% withheld by the Company is in accordance with its legal responsibilities under law respecting withholding taxes. If the withholding tax is higher than levied tax, then the difference will be refunded upon assessment of tax returns.

7.12.2.2 Taxation on Realization of Shares

Capital gains from the sale or other disposal of shares are taxable in Iceland pursuant to current laws. For individuals, capital gains are taxed as income from capital. The tax rate is 18%. Upon the sale or other disposal of shares, the shareholder's average acquisition costs for all shares of the same class and type will be used as the tax base on which the capital gain of the sale/disposal is calculated. Individuals can use losses from the sale of shares in limited liability companies within the same calendar year and offset them against capital gains from sale of shares. Losses from the sale of shares cannot be carried forward and offset against future capital gains from the sale of shares.

In the case of legal entities capital gains from the sale or other disposals of shares are taxable income according to the Income Tax Act. The same act however permits limited liability companies to deduct from their income any gains from sale or other disposals of shares. Such a deduction is conditional on the limited company owning at least a 10% share in the Company.

- Losses from sales of shares cannot be carried forward as losses from regular activities.

- Specific tax consequences may be applicable to certain categories of companies, such as mutual funds and holding companies.
- Residents of Iceland are subject to income tax on their interest income in accordance with Icelandic tax law.

7.12.3 Tax Considerations for Non-residents of Iceland

7.12.3.1 Taxation of Dividends

The Company is obligated to withhold 18% tax on dividends paid to individuals who are not residents of Iceland, absent treaty provisions to the contrary. The Company is obligated to withhold 15% tax on dividends paid to foreign legal entities unless there is a tax treaty in place lowering the percentage. Qualified companies may apply for a reimbursement and/or an advance relief under relevant provisions in double taxation treaties. The Income Tax Act No. 90/2003 however permits limited liability companies which are resident within the EU/EEA area to deduct from their income, including their dividend income, any sum which they may have been paid in dividends. Such a deduction is conditional on the limited company owning at least a 10% share in the Company. Received dividends are therefore not taxable for such shareholders.

7.12.3.2 Taxation on Realization of Shares

In the case of legal entities all gains from the sale or other disposal of shares are taxable income according to the Income Tax Act and are subject to withholding tax of 15%. The same act however permits limited liability companies which are resident within the EU/EEA area to deduct from their income any gains from the sale or other disposals of shares. Such a deduction is conditional on the limited company owning at least a 10% share in the Company. The capital tax rate for individuals is 18% absent treaty provisions to the contrary.

Icelandic brokers as well as Icelandic persons acting as intermediaries are required to withhold the tax from the sale price unless they have been furnished with the Director of Internal Revenue’s confirmation of the seller’s exemption from such taxation prior to the transaction. Residents of treaty countries can apply for formal confirmation of their exemption from such taxation from the Director of Internal Revenue.

7.12.4 Stamp duty

The Company's shares are subject to stamp duty in Iceland, which the Issuer shall pay within two months of the issue of the shares. Stamp duty has been paid on all issued shares. The sale or other disposal of shares is not subject to Icelandic stamp duty.

8 TERMS AND CONDITIONS OF THE OFFERING

8.1 Details and Process of the Issue

This Securities Note is constructed in connection with the offer of 500,000,000 to 1,059,000,000 New Shares in Icelandair Group. The share price in the offering is ISK 2.5 per share. The New Shares can only be paid with cash in ISK. The New Shares are all of the same class and bear the same rights and are identical to the existing shares in Icelandair Group. The New Share issue will be allocated in three tranches; an offer to shareholders' in the Company as registered at the end of 17 November 2010 (record date) with the Icelandic Securities Depository, the ex-date being 15 November 2010, Icelandair Group's and its subsidiaries employees, except Bluebird Cargo ehf. and SmartLynx AOC, as of 31 October 2010, and the general public in Iceland. The offer described in this Securities Note will constitute a public offering pursuant to Article 43 of the Securities Transaction Act No. 108/2007. The share offer will only take place in Iceland. The Company will not issue New Shares if it receives fewer subscriptions than 500 million shares.

The offer period is from 10.00 am on 8 December 2010 until 4.00 pm on 23 December 2010. Subscriptions are binding and investors are not allowed to reduce subscriptions already made. Subscriptions can only be made by the means described in the following sub-chapters.

Subscriptions constitute a legally binding agreement pursuant to which those subscribing are bound to purchase the shares subscribed. When subscribing the investor declares that he has familiarized himself with, understood and agreed the terms and other aspects of the Prospectus.

Minimum subscription for shares in this offering is 10,000 shares for employees and the general public. No minimum will be required for shareholders. Certain persons may belong to more than one tranche and consequently persons who fall under that category will not be limited to subscribe to only one of the relevant tranches.

Assignment of subscription rights is not allowed in this offering.

Subscribers are advised to familiarize themselves with the Rules on Foreign Exchange published by the Central Bank of Iceland. The following is a direct link to those rules: http://sedlabanki.is/?PageID=1019.

Íslandsbanki is Listing Advisor and handles this public offering. Íslandsbanki's address is Kirkjusandur155, Reykjavík, Iceland.

8.1.1 Offer to Icelandair Group shareholders

Icelandair Group shareholders as registered at the end of 17 November 2010 (record date) with the Icelandic Securities Depository, the ex-date is 15 November 2010, have a pre-emptive right to purchase 799,000,000 New Shares in this offering. Should demand for shares be less than the number of reserved shares, the outstanding shares will be transferred from this tranche and disbursed directly to the general public tranche.

Shareholders shall subscribe for shares in the offering electronically through a subscription form on Íslandsbanki's website, www.isb.is. Every shareholder was sent a letter via general mail on 7 December 2010 containing information about the nominal value and rate of the shares the shareholder is entitled to, respite for subscription and terms of payment. The letter contained a username and password which is a requirement for identification when logging in to the subscription form on Íslandsbanki's website. If a shareholder who wishes to participate does not receive a username and password he or she can contact Íslandsbanki through phone number +354 440 4920.

The New Shares will be allocated in conformity with Act No. 2/1995 on Public Limited Companies and the Company's Articles of Association.

If a shareholder does not exercise his or her pre-emptive rights in full, other shareholders shall be entitled to increase their subscription. Shareholders who wish to subscribe to unused subscription rights can do so by subscribing to more than they are entitled to and the allocation will be proportional according to their registered holding as registered on 17 November 2010 with the Icelandic Securities Depository. If New Shares that are allocated will contain fragments they will be rounded downwards.

8.1.2 Offer to employees of Icelandair Group and its subsidiaries

All employees of Icelandair Group and its subsidiaries, except Bluebird Cargo ehf. and SmartLynx AOC, as of 31 October 2010 have a preference right to purchase 160,000,000 New Shares in this offering. Should demand for shares be less than the number of reserved shares, the outstanding shares will be transferred from this tranche and disbursed directly to the general public tranche.

Employees of Icelandair will access a link to Íslandsbanki website, through Icelandair’s Group intranet where they can fill out a subscription form. Each employee has an individual access via the Icelandair intranet.

8.1.3 Offer to the General Public

The general public in Iceland will be offered 100,000,000 New Shares plus any outstanding shares from the other two tranches. Participation in the offering is available to individuals and legal entities holding an Icelandic ID Number, if not prohibited by law. Employees of Íslandsbanki are in general allowed to take part in the offer to the general public but their participation is restricted to the first three hours from the opening of the offering on 8 December 2010.

Subscription for shares in the offering shall be made electronically via a subscription form on Íslandsbanki’s website, www.isb.is.

8.2 Allocation

A decision on allocation of the New Shares to the general public and employee tranches will be made by Icelandair Group’s Board of Directors in a meeting following the expiration of the offer period. The Board of Directors reserves the right to reject subscriptions in full or in part at its sole and unfettered discretion.

8.3 Notification of offer results, allocation and payment instructions

The results of the share offering will be made public on 30 December 2010. The announcement will include the aggregate number of New Shares which were subscribed for and the aggregate number of participants and how many subscriptions were received for each tranche in the share offering along with the Company’s Board of Directors decision in regards to allocation of the New Shares.

An invoice will be sent to subscribers who will be allocated New Shares on 30 December 2010 via their online bank, or general mail if they specifically choose so on the subscription form. Those subscribers who do not receive an invoice will not be allocated New Shares in the Company. No further notification will be made regarding allocation of New Shares.

The due date for the invoice is 6 January 2011. For any shares unpaid on the due date Icelandair Group’s Board of Directors may either collect payment with penalty interest (according to Article 6 of Act No. 38/2001) and costs, or cancel the subscription of the shares in question and allocate those shares to a third party without notice or notification to subscribers.

9 AN UPDATE OF THE REGISTRATION DOCUMENT

The Issuer has published a Registration Document for the Company which NASDAQ OMX Iceland approved on 28 October 2010. According to Article 49 of the Securities Transaction Act No. 108/2007 if an issuer already has available a registration document approved by a competent authority in the European Economic Area need only prepare a securities note and summary when securities are offered to the public or admitted to trading on a regulated market. In such case the information which generally would be provided in the registration document must be included in the securities note if there has been a material change or recent development that could affect investors' assessment since the latest updated registration document. The securities note and summary shall be approved separately.

The following chapter stipulates all major changes that have transpired within the Company since the last published Registration Document.

9.1 Documents on Display and Incorporated by Reference

The following documents shall be deemed to be incorporated by reference in, and to form part of, the Icelandair Group Securities Note dated 7 December 2010:

- The Company's reviewed condensed consolidated interim financial statement in respect of the first nine months ended 30 September 2009.
- The Company's reviewed condensed consolidated interim financial statement in respect of the first nine months ended 30 September 2010.

Copies of the aforementioned documents can be obtained from the registered office of the Issuer or electronically from the Company's website www.icelandairgroup.is.

For the life of this Securities Note, or for 12 months from the date of issue, the following documents are available for viewing at the registered office of the Issuer, or electronically from the Company´s website www.icelandairgroup.is:

- The Company's reviewed condensed consolidated interim financial statement in respect of the first nine months ended 30 September 2009.
- The Company's reviewed condensed consolidated interim financial statement in respect of the first nine months ended 30 September 2010.
- The Issuer's Articles of Association.
- The Company's Registration Document dated 28 October 2010 and a Summary and Securities Note dated 7 December 2010.

9.2 Statutory Auditor's Statement

KPMG hf., ID No. 590975-0449, registered office Borgartún 27, 105 Reykjavík, Iceland, which contains members of the Institute of State Authorized Public Accountants in Iceland

and

Jón S. Helgason, state-authorised public accountant at KPMG hf. and Gudný Helga Gudmundsdóttir, state-authorised public accountant at KPGM hf., hereby jointly declare that we have reviewed the condensed consolidated statement of financial position of Icelandair Group hf. as at 30 September 2010 and 30 September 2009, the condensed consolidated statement of comprehensive income, changes in equity and cash flows for the nine month period then ended. Management is responsible for the preparation and fair presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

We conducted our review in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Emphasis of matter for consolidated financial statements for first nine months 2009[7]

The following paragraph is from the independent auditors report in the Icelandair Group's Financial Statement for the first nine months 2009:

"Without qualifying our opinion we would like to draw attention to note 18 in the financial statements disclosing the restructuring process of the Group. It is pointed out that as a part of the restructuring plan, the Board of Directors has redefined the business model of the company , leading to subsidiaries being split between core and non-core. Bluebird Cargo ehf. and Smartlynx Latvia are classified as non-core. This change will lead to reclassification of these companies assets and liabilities as held for sale. When classified as held for sale, assets and liabilities are measured at the lower of carrying value and fair value less cost to sell. Due to difficult current market conditions this might lead to negative impacts on the Group´s equity.."

KPMG has also examined the profit forecast of Icelandair Group for the year 2010 set forth in *Chapter 9.5 Profit Forecast* in this Securities Note in consideration of whether it is presented in accordance with the accounting policies of Icelandair Group and the International Financial Reporting Standards. The Company's management and the Board of Directors are responsible for the profit forecast and the assumptions on which it is based. Our responsibility is to express an opinion on the presentation of the profit forecast based on our examination.

In our opinion the profit forecast presented and set forth in*9.5 Profit Forecast* has been presented in accordance with the accounting policies of Icelandair Group and the International Financial Reporting Standards.

Reykjavík, 7 December 2010

On behalf of KPMG hf.

Jón S. Helgason

State-authorised public accountant and member of The Institute of State Authorized Public Accountants in Iceland

Icelandic ID No. 050269-3619

[7] Independent Auditor's Report for the Consolidated Financial Statement of Icelandair Group hf. nine months 2009.

and

Gudný Helga Gudmundsdóttir

State-authorised public accountant and member of The Institute of State Authorized Public Accountants in Iceland

Icelandic ID No. 221168-4029.

9.3 Nine months Interim Financial Accounts of Icelandair Group 2009 and 2010

9.3.1 Basis of Presentation of Financial Information

- Income Statement nine months 2009: SmartLynx and the remaining shares (30%) in Travel Service are defined as non-core, leading to reclassification on these companies financial results for the first nine months of the year 2009 as discontinued operations. Amounts for the first nine months of the year 2009 have been re-presented in the profit and loss statement for comparative reasons.
- Bluebird Cargo is classified as an asset held for sale at year-end 2009 and on 30 September 2010 but its operations are fully included in the nine months 2009 and nine months 2010 income statements. This is due to the fact that although the Group is divesting Bluebird Cargo, the Group will continue to operate cargo operations from Iceland.
- Note 6 in the Group‘s Consolidated Financial Statement for the first nine months of 2010 represents the income statement of the non-core businesses in more detail.

The highlights of the first nine months (Q1-Q3) 2010 interim financial accounts are highlighted below:

- Operating income was ISK 69.3 billion in the first nine months of 2010, an increase of 11.5%, as compared to the first nine months of 2009.
- EBITDA was ISK 11.5 billion in the first nine months of 2010, as compared to ISK 8.4 billion during the same period of 2009.
- Depreciation and amortisation was ISK 4.2 billion in the first nine months of 2010, an increase of ISK 307 million from the year before.
- Profits after taxes came to ISK 3.2 billion in the first nine months of 2010, as compared to ISK 1.0 billion loss in the corresponding period in 2009.
- Cash on 30 September 2010 amounted to ISK 7.4 billion, as compared to ISK 1.9 billion at 31 December 2009.
- Total assets amounted to ISK 91.2 billion at the end of the first nine months 2010 and the equity ratio was 18.6%, as compared to 16.4% at 31 December 2009.

9.3.2 Nine Months Income Statements 2009 and 2010

As shown in the table below, EBITDA was ISK 11.5 billion in the first nine months of 2010, as compared to ISK 8.4 billion over the same period last year. EBIT was ISK 7.2 billion in the first nine months of 2010, as compared to ISK 4.4 over the same period last year. Profits after taxes in the first nine months of 2010 amounted to ISK 3.2 billion, as compared to losses of ISK 1.0 billion over the corresponding period in 2009. Profits from continuing operations amounted to ISK 3.5 billion in the first nine months of 2010. EBITDAR amounted to ISK 18.3 billion in the first nine months of 2010, as compared to ISK 15,4 billion in the first nine months of 2009.

Item 4. Income Statement Q1-Q3 2009 and Q1-Q3 2010

(m. ISK)	9M 2009**	9M 2010
Transport revenue	37,270	43,081
Aircraft and aircrew lease	13,972	14,994
Other operating revenue	10,884	11,175
Operating income	**62,126**	**69,250**
Salaries and other personnel expenses	13,758	15,073
Aircraft fuel	10,433	11,634
Aircraft and aircrew lease	9,091	9,370
Aircraft handling, landing and communication	4,645	4,998
Aircraft maintenance expenses	4,725	5,151
Other operating expenses	11,120	11,562
Operating expenses	**53,772**	**57,788**
EBITDA	8,354	11,462
Depreciation and amortisation	-3,930	-4,237
EBIT	4,424	7,225
EBT	1,365	4,341
Net Profit/Loss from continuing operations	1,143	3,551
Net Profit (loss) from discontinued operation, net of income tax	-2,161	-400
Net Profit (loss) for the period	-1,018	3,151
EBITDAR	15,346	18,263
EBITDA ratio	*13.4%*	*16.6%*
EBITDAR ratio	*24.7%*	*26.4%*

**Re-presented

Operating income amounted to ISK 69.3 billion, as compared to ISK 62.1 billion in the corresponding first nine months of 2009. Transport revenues amounted to ISK 43.1 billion, as compared to ISK 37.3 billion in the first nine months of 2009. Aircraft and aircrew lease revenues amounted to ISK 15.0 billion, as compared to ISK 14.0 billion in the first nine months of 2009. Other operating revenue amounted to ISK 11.2 billion in the first nine months of 2010, as compared to ISK 10.9 billion in the first nine months of 2009.

Operating expenses amounted to ISK 57.8 billion, as compared to ISK 53.8 billion in the first nine months of 2009. Salaries and personnel expenses amounted to ISK 15.1 billion in the first nine months 2010, as compared to ISK 13.8 billion in the first nine months of 2009. Aircraft fuel costs amounted to ISK 11.6 billion, as compared to ISK 10.4 billion in the first nine months of 2009. Aircraft and aircrew lease amounted to ISK 9.4 billion, as compared to ISK 9.1 billion in the first nine months of 2009. Aircraft handling, landing and communication expenses amounted to ISK 5.0 billion in the first nine months of 2010, as compared to ISK 4.6 billion in the same period of 2009. Aircraft maintenance costs amounted to ISK 5.2 billion, as compared to ISK 4.7 billion in the first nine months of 2009. Other operating expenses amounted to ISK 11.6 billion, as compared to ISK 11.1 billion in the first nine months of 2009.

EBITDA ratio for the first 9 months of 2010 was 16.6% compared to 13.4% for the same period 2009. The improvement in the EBITDA ratio is mainly due to a more balanced passenger mix, which resulted in an improved load factor and higher yields. The EBITDAR ratio showed a corresponding improvement to 26.4% compared to 24.7% for the same period 2009.

Notice is drawn to the fact the government has announced tax increases on the travel industry that may have severe impact on Icelandair Group Growth plan

9.3.3 Balance sheet 30 September 2010

Item 5. Balance Sheets 31 December 2009 and 30 September 2010

(m. ISK)	31.12.2009	30.9.2010
Assets:		
Operating assets	27,014	27,355
Intangible assets	23,598	22,604
Investments in associates	545	592
Prepaid aircraft acquisitions	1,134	1,058
Long-term cost	1,347	1,009
Long-term receivables and deposits	3,449	3,102
Deferred tax asset	140	0
Total non-current assets	**57,227**	**55,720**
Inventories	1,393	1,653
Trade and other receivables	9,725	13,557
Assets classified as held for sale	17,500	11,681
Prepayments	1,350	1,174
Cash and cash equivalents	1,909	7,382
Total current assets	**31,877**	**35,447**
Total assets	**89,104**	**91,167**
Equity:		
Share capital	975	975
Share premium	25,450	25,450
Reserves	6,899	6,012
Accumulated deficit	(18,755)	(15,508)
Total equity attributable to equity holders of the Company	14,569	16,929
Non-controlling interest	36	40
Total equity	**14,605**	**16,969**
Liabilities:		
Loans and borrowings	13,676	11,690
Prepayments	2,254	2,051
Long-term payables	3,688	4,261
Deferred income tax liability	0	589
Total non-current liabilities	19,618	18,591
Loans and borrowings	22,714	24,402
Trade and other payables	14,392	16,884
Liabilities classified as held for sale	10,597	5,581
Deferred income	7,178	8,740
Total current liabilities	**54,881**	**55,607**
Total liabilities	74,499	74,198
Total equity and liabilities	**89,104**	**91,167**
Equity ratio	*16.4%*	*18.6%*
Current ratio	*0.58*	*0.64*

Assets amounted to ISK 91.2 billion at the end of the first nine months of 2010, as compared to ISK 89.1 billion at year end 2009.

Total non-current assets amounted to ISK 55.7 billion at 30 September 2010, as compared to ISK 57.2 billion at year-end 2009. At the end of September 2010 operating assets amounted to ISK 27.4 billion, as compared to ISK 27.0 billion at year-end 2009. Intangible assets amounted to ISK 22.6 billion at the end of September 2010, as compared to ISK 23.6 billion at year-end 2009. Other non-current assets totalled ISK 5.8 billion at the end of first nine months in 2010, as compared to ISK 6.6 billion at the end of the year 2009.

At 30 September 2010, total current assets amounted to ISK 35.5 billion, as compared to ISK 31.9 billion at the end of the year 2009. Thereof, trade and other receivables amounted to ISK 13.6 billion, as compared to ISK 9.7 billion at year-end 2009. Other current assets amounted to ISK 21.9 billion at 30 September 2010, as compared to ISK 22.2 billion at year-end 2009.

At 30 September 2010, total equity amounted to ISK 17.0 billion, as compared to ISK 14.6 billion at year-end 2009. Share premium in the end of both quarters amounted to ISK 25.5 billion. Total accumulated deficit amounted to ISK 15.5 billion at the end of September 2010, as compared to ISK 18.8 billion at year-end 2009.

Total liabilities amounted to ISK 74.2 billion at 30 September 2010, as compared to ISK 74.5 billion at year-end 2009.

Non-current liabilities amounted to ISK 18.6 billion at end of September 2010, as compared to ISK 19.6 billion at the end of 2009. Thereof, loans and borrowing amounted to ISK 11.7 billion at 30 September 2010, as compared to ISK 13.7 at year-end 2009. Other non-current liabilities amounted to ISK 6.9 billion at 30 September 2010, as compared to ISK 5.9 billion at year-end 2009.

Total current liabilities amounted to ISK 55.6 billion at the end of September 2010, as compared to ISK 54.9 billion at year-end 2009. Thereof, loans and borrowings amounted to ISK 24.4 billion at the end of September 2010, as compared to ISK 22.7 billion at year-end 2009. Other current liabilities totalled ISK 31.2 billion at 30 September 2010, as compared to ISK 32.2 billion at year-end 2009.

Equity ratio on 30 September 2010 was 18.6% compared to 16.4% on 31 December 2009. The improvement is due to the positive net result in the first 9 months of 2010. The current ratio was 0.64 on 30 September 2010 compared to 0.58 on 31 December 2009. The improved current ratio is mainly due to higher trade receivables and a stronger cash holding.

9.3.4 First Nine Months Statement of Cash Flows 2009 and 2010

At year end 2009, the Group changed its accounting procedures regarding leased engines capitalisation. The different accounting procedures altered the cash flow classification. When the cash flow for the first nine months of 2010 was published in the financial statement, the cash flow figures for the first nine months of 2009 were re-classified. The cash flow figures for the first nine months of 2009 are derived from the third quarter 2010 condensed consolidated interim financial information. Therefore, it is hereby noted that the cash flow classification shown for the first nine months of 2009 in the third quarter 2010 financial statement, is not the same classification as originally shown in the financial statement for the first nine months of 2009.

Working capital from operations amounted to ISK 11.3 billion in the first nine months of 2010, as compared to ISK 7.9billion in the first nine months of 2009. The turnaround between years amounts to ISK 3.4 billion and is solely explained by an improvement in net cash flow from operations between periods.

Net cash from operating activities amounted to ISK 11.9 billion in the first nine months of 2010, as compared to ISK 10.5 billion in the first nine months of 2009. The increase between periods amounts to ISK 1.5 billion and is largely explained by an increase in sales and improvements in net cash flow from operations.

Net cash used in investing activities amounted to ISK 2.8 billion in the first nine months of 2010, as compared to ISK 4.6 billion in the first nine months of 2009. The decrease between periods is explained by lower investments in operating assets and acquisitions of long-term cost relating to engine overhauls of leased engines.

Net cash used in financing activities amounted to ISK 3.4 billion in the first nine months of 2010, as compared to ISK 4.3 billion in the first nine months of 2009. Financing activities largely reflect the repayment of long-term and short-term debt.

Item 6. Statement of Cash Flows, Q1-Q3 2009 and Q1-Q3 2010

(m. ISK)	9M 2009**	9M 2010
Working capital from operations	7,865	11,281
Net cash from operating activites	10,452	11,942
Net cash used in investing activities	(4,599)	(2,763)
Net cash used in financing activities	(4,315)	(3,430)
Increase in cash and cash equivalents	**1,538**	**5,749**
Effect of exchange rate fluctuations on cash held	520	(276)
Cash and cash equivalents at 1 January	4,065	1,909
Cash and cash equivalents at 30 September	6,123	7,382

****Re-presented**

The increase in cash and cash equivalents was ISK 5.8 billion in the first nine months of 2010, as compared to ISK 1.5 billion in the corresponding period of 2009. Cash at the end of the third quarter of 2010 amounted to ISK 7.4 billion, as compared to ISK 6.1 billion at the end of the same period of 2009.

9.4 Aircraft and Flight Equipment

The total fleet of Icelandair Group's subsidiaries is 34 aircraft. The fleet is listed in the table below. The table excludes the aircraft of Bluebird Cargo and SmartLynx as these two companies are classified as assets held for sale in the consolidated balance sheet on 30 September 2010.

Item 7. Entire fleet of Icelandair Group as of 30 September 2010

	Total	Icelandair	Icelease Icelandair	Icelandair Cargo	Loftleiðir Icelandic	Air Iceland
Boeing 757-200	**20**	8	3	5	4	
Boeing 757-300	**1**	1				
Boeing 767-200	**5**				5	
Fokker F-50	**6**					6
Dash 8-100	**2**					2
Total	**34**	**9**	**3**	**5**	**9**	**8**

On 30 September 2010, the book value of all owned aircraft and flight equipment amounted to ISK 23,838 million. Total lease obligations relating to aircraft and flight equipment were ISK 18,340 million. No material changes have occurred in the value of owned aircraft since 30 September 2010, and no material changes have been on the value of lease obligations since 30 September 2010.

Item 8. Own aircraft as of 30 September 2010

Own Aircraft	
Icelandair	4 - B757-200
Icelandair	1 - B757-300
Air Iceland	6 - Fokker
Air Iceland	2 - Dash
IG Invest/Icelandair	3 - 757-200
Total #	**16**

Item 9. Leased aircraft as of 30 September 2010

Leased Aircraft	
Icelandair	4 - B757-200
Icelandair Cargo	5 - B757-200
Loftleidir - Icelandic	4 - B757-200
Loftleidir - Icelandic	5 - B767-200
Total #	**18**

9.5 Profit Forecast

On 15 November the Company revised its profit forecast from 21 October 2010 and made public a press release that, among other, stated:

- "The operation of the Group in October and the booking situation going into the last two months of the year have caused the Company to raise its EBITDA forecast for the year from ISK 9.5 billion to ISK 10.5 billion."

Therefore the EBITDA projection for the year 2010 was revised upwards from ISK 9.5 billion to 10.5 billion for the full year.

On 26 November the Company revised its earlier profit forecast from 15 November 2010 and made public the following announcement:

- Operations of Icelandair Group in the fourth quarter have been successful so far, and booking status for the last few weeks of the year is promising. Therefore the Board of Directors of the Group decided at a meeting today to raise the EBITDA forecast for 2010 from ISK 10.5 billion to ISK 11.5 billion.

9.5.1 Management and Auditors statement

The management of the Group and the Board of Directors confirm that the revised profit forecast made public on 26 November 2010, are correct at the date of issue of this Securities Note. The profit forecast was prepared in accordance with the Company's accounting policies and on a basis comparable with those used in the consolidated financial statements of the Company for the financial years ended 31 December 2007, 2008 and 2009.

An auditor's report confirming that the profit forecast has been properly compiled on the basis stated and that the basis of accounting used for the profit forecast is consistent with the accounting policies of Icelandair Group is available, *see Chapter 9.2 Statutory Auditor's Statement*.

9.6 The Board of Directors

Mrs. Audur Finnbogadóttir resigned from the Company's Board of Directors on 30 November 2010. Mrs. Finnbogadóttir was appointed CEO of the Engineer's Pension Fund and she announced that she feels that her membership of the board of Icelandair Group did not serve the interest of the Engineers' Pension Fund.

Mrs. Finnbogadóttir's position will not be elected until the next Company's Annual General Meeting.

At the date of this Securities Note the Board of Directors has not decided which alternate Board Member will take Mrs. Finnbogadóttir's place in the Board of Directors or the Audit Committee.

Since the last Prospectus dated 28 October 2010, Mrs. Katrín Olga Jóhannesdóttir became acting Chairman of the Board of Directors of Já Upplýsingaveitur ehf. until an undisclosed date. Mrs. Jóhannesdóttir is currently a Member of the Board Directors of Já Upplýsingaveitur ehf. In December 2010 she will resign as Chief Strategy Officer of Skipti hf. Mrs. Jóhannesdóttir also became a Member of the Board of Directors for Siminn DK.

Mr. Úlfar Steindórsson became a Member of the Board of Directors of Exista hf. on 1 November 2010. At the date of this Securities Note he is no longer a Member of the Board of Exista hf.

9.7 Share Capital and Major Shareholders

The share capital in Icelandair Group is on 3 December 2010 is ISK 3,941,000,000. All shares carry equal rights and no restrictions are placed on them. Although The Enterprise Investment Fund, Íslandsbanki and Glitnir Bank agreed to not to sell their holding in the Company for a period of 24 months from 5 November 2010. Refer to *Chapter 7.8 Transferability of the Shares* for further information regarding lock up agreements between the Issuer and several shareholders of the Company.

Major shareholders on 3 December 2010 are listed in the following table:

Item 10. 20 largest shareholders as of 3 December 2010.

Major Shareholders	Number of shares	Percentage of shares	Percentage of votes*
Framtakssjódur Ísland slhf...................................	1,200,000,000	30.45%	30.00%
Íslandsbanki hf..	1,028,492,387	26.10%	26.51%
The Pension Fund of Commerce..........................	400,000,000	10.15%	10.31%
Landsbanki Íslands hf...	238,348,350	6.05%	6.14%
Lífeyrissjódir Bankastræti 7.................................	200,000,000	5.07%	5.16%
Glitnir banki hf..	182,205,000	4.62%	4.70%
Sparisjódabankinn hf..	93,572,562	2.37%	2.41%
Stefnir - Ís-15...	85,000,000	2.16%	2.19%
Stafir lífeyrissjódur...	83,656,512	2.12%	2.16%
Landssjódur hf.,úrvalsbréfadeild.........................	49,924,512	1.24%	1.25%
Stefnir ÍS-5...	45,000,000	1.14%	1.16%
Sameinaði lífeyrissjódurinn.................................	45,000,000	1.14%	1.16%
Alnus ehf..	32,992,831	0.84%	0.85%
Icelandair Group hf..	25,460,000	0.65%	0.00%
Eftirlaunasjódur atvinnuflugmanna.....................	20,282,481	0.51%	0.52%
Sigla ehf...	20,000,000	0.51%	0.52%
Útbod og samningar ehf.....................................	20,000,000	0.49%	0.50%
Audur Captial safnreikningur...............................	18,204,159	0.48%	0.49%
Arkur ehf...	17,620,000	0.44%	0.45%
Stapi lífeyrissjódur...	17,500,000	0.38%	0.39%
Lífeyrissjóður Rangeyinga...................................	15,000,000	0.38%	0.38%
Total..		97.29%	97.25%

*The Enterprise Investment Fund voting powers are capped at 29.99% of active voting right.

The table above lists the holding and voting rights of the largest shareholders in the Company as of 3 December 2010. Certain relationships between the following major shareholders and the Company's Board Members : (i) Members of the Company´s Board of Directors Finnbogi Jónsson, Herdís Dröfn Fjelsted and Vilborg Lofts are all employed by the Enterprise Investment Fund which is the Company´s largest shareholder. (ii) According to publicly available information, 95% of the common stock of Íslandsbanki is held by foreign creditors of the Resolution Committee of Glitnir Bank and (iii) Magnús Magnússon is Managing Director of Corporate Banking for Landsbanki Íslands hf., which owns a 6.14% stake in the Company.

9.8 Capital Resources

9.8.1 Information on Capital Resources

Please refer to *Chapter 6.2 Capitalisation and Indebtedness* for updated information regarding capital resources since the Icelandair Group Registration Document dated 28 October 2010.

9.8.1.1 Discussion on Cash Flow

Cash and cash equivalents increased by ISK 5.7 billion during the first nine months of 2010 compared to ISK 1.5 billion the same period the previous year. This is due to improved cash flow from working capital in operation and a net change in operating assets and liabilities, totalling ISK 11.9 billion compared to ISK 10.5 billion in 2009. Net cash used in investing activites was ISK 2.8 billion in the first nine months of 2010 compard to ISK 4.6 billion in the first nine months of 2009.

Refer to *Chapter 9.3.4 First Nine Months Statement of Cash Flows 2009 and 2010* for information on cash flow 30 September 2009 and 30 September 2010. Refer also to *Chapter 9.1.4 Statement of Cash Flows* in the Icelandair Group Registration Document dated 28 October 2010 for the years 2007–09.

9.8.1.2 Treasury Management Policy

The Company has a policy which covers treasury management. This includes objectives in terms of the manner in which cash and cash equivalents are held, the extent to which borrowings are at fixed rates and the use of financial instruments for hedging purposes. The details of this policy are covered in *Chapter 2 RISK MANAGEMENT POLICY* in the Icelandair Registration Document dated 28 October 2010.

The policy includes a description of the preferred levels of liquidity which can be compared to the current level of ISK 7.4 billion and the projected level of approximately ISK 13.1 billion after the capital restructuring.

9.8.2 Maturity Profile

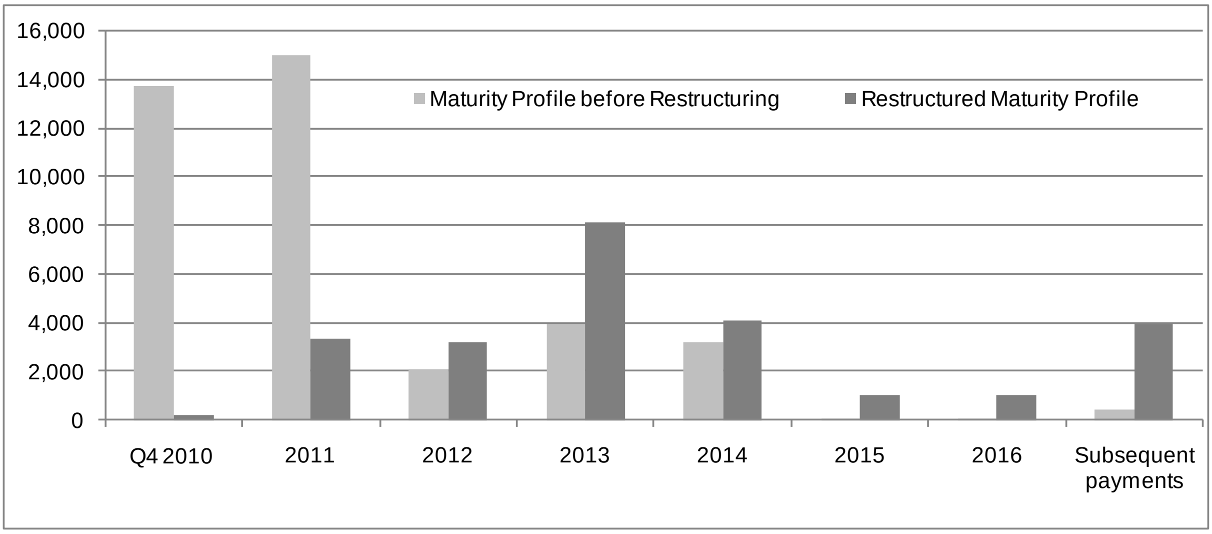
The capital restructuring will have a dramatic effect on the amortisation of liabilities. Total interest-bearing debt will be brought down from ISK 38.4 billion to ISK 24.9 billion, and the ratio of current loans thereof will be reduced from 64% to 13%. The following table compares the current maturity profile with the projected version after the restructuring. The maturity profile after the restructuring is shown in the following table. Please note that the financial information on the maturity profile after the financial restructuring is not audited and is based on information from the management of Icelandair Group.

Item 11. Comparison of maturity profiles

(mISK)	Maturity Profile before Restructuring	Restructured Maturity Profile
Q4 2010	13,767	185
2011	14,985	3,360
2012	2,065	3,151
2013	3,931	8,129
2014	3,217	4,109
2015	15	1,013
2016	16	1,041
Subsequent payments	412	3,904
Total	**38,408**	**24,892**

The table reflects the excessive burden of the current loan repayment profile and the complications it has placed on the financing administration and liquidity. Once the restructuring has been finalised, the debt level and maturity is expected to be comfortably within the limits of sustainability. The following column chart displays graphically the contrasts between the two profiles. Please note that the restructured maturity profile is calculated in accordance with the final loan agreements. The maturity profile has changed from the Icelandir Group Registration Document date 28 October 2010, where the restructured maturity profile was calculated according to draft loan agreements.

Item 12. The table represents estimated changes in maturity profile



Item 13. Interest coverage ratio for the years 2007 to 2009

	2007	**2008**	**2009**
EBIT	2,337	-7,351	1,483
Interest expense	2,545	3,658	4,152
Interest coverage ratio	**0.9**	**-2.0**	**0.4**

Attention is drawn to the fact that the financial data on the restructured maturity profile in this chapter is not extracted from the issuer's audited financial statements. The data on the restructured maturity profile in this chapter is unaudited and based on management calculations derived from negotiations with the creditors of the Group.

9.9 Pro Forma Balance Sheet

The pro- forma balance sheet below shows the effects of the restructuring on the Company's balance sheet as of 30 September 2010. The pro forma financial information addresses a hypothetical situation and, therefore, does not represent the company's actual financial position or results.

The pro forma financial information listed herein is compiled by the management of Icelandair Group hf. and is only for information purposes. The pro forma information are not audited and have been prepared for illustrative purposes only.

The pro-forma consolidated balance sheet on 30 September 2010 is based on the following assumptions:

- Sale of Bluebird Cargo, Travel Service and the economical benefits of IG Invest for a total of ISK 7.6 billion. The ISK 7.6 billion in proceeds is contributed by reducing debt of Icelandair Group hf. amounting to ISK 7.6 billion. There is no cash contribution involved in the asset divestment.

- Vindabudir ehf. ID No. 680807-2560, a company fully owned by the Resolution Committee of Glitnir Bank, will directly acquire 100% of the share capital of SmartLynx for ISK 1 (one) as SmartLynx has no value. Icelandair Group will continue to guarantee SmartLynx operational leasing obligations
- Debt-to-equity conversion by Íslandsbanki and the Resolution Committee of Glitnir Bank in the amount of ISK 3.6 billion.
- New share capital from investors amounting to ISK 5.5 billion.
- Refinancing of ISK 10 billion of short- term debt into long- term debt.

Item 14. Pro -forma Balance Sheet for Icelandair Group hf. 30 September 2010 (mISK)

Assets:	**30/09/2010**	**Restructuring**	**30/09/2010 Pro-forma**
Operating assets	27,355		27,355
Intangible assets	22,604	(485)	22,119
Investments in associates	592	(431)	161
Prepaid aircraft acquisitions	1,058	(1,058)	0
Long-term cost	1,009		1,009
Long-term receivables and deposits	3,102	(1,647)	1,455
Total non-current assets	***55,720***	***(3,621)***	***52,099***
Inventories	1,653		1,653
Trade and other receivables	13,557	1,362	14,919
Assets classified as held for sale	11,681	(11,681)	0
Prepayments	1,174		1,174
Cash and cash equivalents	7,382	5,736	13,118
Total current assets	***35,447***	***(4,583)***	***30,864***
Total assets	**91,167**	**(8,204)**	**82,963**
Equity:			
Share capital	975	2,941	3,916
Share premium	25,450	6,212	31,662
Reserves	6,012		6,012
Accumulated deficit	(15,508)	1,694	(13,814)
Total equity attributable to equity holders of the Company	16,929	10,847	27,776
Non-controlling interest	40		40
Total equity	**16,969**	**10,847**	**27,816**
Liabilities:			
Loans and borrowings	11,690	10,002	21,692
Prepayments	2,051	(2,051)	0
Long-term payables	4,261		4,261
Deferred income tax liability	589	547	1,136
Total non-current liabilities	**18,591**	**8,498**	**27,089**
Loans and borrowings	24,402	(21,202)	3,200
Trade and other payables	16,884	(766)	16,118
Liabilities classified as held for sale	5,581	(5,581)	0
Deferred income	8,740		8,740
Total current liabilities	**55,607**	**(27,549)**	**28,058**
Total liabilities	**74,198**	**(19,051)**	**55,147**
Total equity and liabilities	**91,167**	**(8,204)**	**82,963**

The table depicts the consolidated balance sheet of Icelandair Group hf. for the first nine months of 2010 in the, column labelled “30/09/2010”. The column labelled “Restructuring” shows the changes to each line item of the consolidated balance sheet following the financial restructuring. The last column, labelled “30/09/2010 Pro forma” shows the pro forma consolidated balance sheet of Icelandair Group hf. on 30 September 2010, taking into account the amendments to the balance sheet stemming from the financial restructuring.

The restructuring of the Group's balance sheet is explained in *Chapter 27.2 Overview of the Financial Restructuring* in the Icelandair Group Registration Document dated 28 October 2010. The effects of the restructuring on every balance sheet item are presented in the column labelled "Restructuring".

On 30 September 2010 loan agreements related to the financial restructuring were classified as short term payables but are at the date of this Securities Note classified as long term payables. This is due to the fact that on 30 September 2010 these loan agreements had not been finalized.

"Assets classified as held for sale" is the book value of the shares in Travel Service, Bluebird Cargo, and SmartLynx in addition to the price premium which is involved in the divestments of Travel Service and Bluebird Cargo.

Cash and cash equivalents increase by ISK 5.7 billion due to the capital injection of ISK 5.5 billion in addition to intra- group debt that will be settled with IG Invest.

The share offering increases the Company's share capital of by approximately ISK 9.2 billion (ISK 2,941 million in share capital and ISK 6,212 million in share premium) where approximately ISK 5.5 billion is paid with cash and approximately ISK 3.6 billion is debt -to -equity conversion.

Change in accumulated deficit is ISK 1.7 billion, which is the after tax profit and revised foreign currency translations differences, from the sale of Travel Service, Bluebird Cargo, SmartLynx and the economic benefits from IG Invest. The sale price of the assets amount to ISK 7.6 billion and the book value amounts to ISK 5.5 billion. Net after tax effects on accumulated deficit amount to ISK 1.7 billion.

Non-current loans and borrowings increase by ISK 10 billion as the term structure of short- term loans is changed so as they will be classified as long- term loans.

Current loans and borrowings decrease by ISK 21.2 billion. The sale of the shares in Bluebird Cargo, Travel Service and the transfer of the economic benefits from IG invest decreases debt by ISK 7.6 billion. The debt to equity swap amounts to ISK 3.6 billion. The change of short term loan terms decreases current loans by ISK 10 billion.

"Liabilities classified as held for sale" is the debt on Bluebird Cargo's and SmartLynx's balance sheets.

9.9.1 Auditor's Review Report

We have reviewed the pro forma consolidated balance sheet of Icelandair Group hf. as of 30 September 2010. This consolidated financial information is the responsibility of the Company's management. Our responsibility is to issue a report on this pro forma financial information based on our review.

Our review is limited and thus provides less assurance than an audit and accordingly, we do not express an audit opinion.

The pro forma financial information is not audited, but is nevertheless prepared in accordance with IFRS. Furthermore, the pro forma financial information is prepared on a basis which is consistent with the accounting principles used by Icelandair Group.

Based on our review, nothing has come to our attention that causes us not to believe anything other than that the pro-forma information have been prepared properly. We herby confirm that :

- the pro forma financial information has been properly compiled on a basis that is consistent with the accounting principles used by the companies of Icelandair Group hf.;
- the adjustments are appropriate for the purposes of the pro forma financial information as disclosed;.
- financial information is prepared in accordance with IFRS.

We consent to the inclusion of this letter and the reference in this Securities Note to be issued by Icelandair Group hf. in the form and context in which it appears.

Reykjavík, 7 December 2010

On behalf of KPMG hf.

Jón S. Helgason

State authorised public accountant and member of The Institute of State Authorized Public Accountants in Iceland

Icelandic ID No. 050269-3619

and

Gudný Helga Gudmundsdóttir

State authorised public accountant and member of The Institute of State Authorized Public Accountants in Iceland

Icelandic ID No. 221168-4029.

10 ADMISSION TO TRADING AND DEALING ARRANGEMENTS

10.1 Admission to Trading

An application has been made for the New Shares to be admitted to trading on the regulated market of NASDAQ OMX Iceland, which is an EU regulated market within the meaning of Directive 2004/39/EC on Markets in Financial Instruments (“MiFID”), which has been implemented through the Securities Transaction Act No. 108/2007. NASDAQ OMX Iceland is authorised pursuant to the Act on Stock Exchanges No. 110/2007 to operate a regulated market under the supervision of the Icelandic Financial Supervisory Authority (FME). The FME is a governmental agency responsible for, among other things, supervising Icelandic securities market laws. Furthermore, pursuant to the Act on Stock Exchanges No. 110/2007, NASDAQ OMX Iceland is required to have rules of its own, governing the trading on NASDAQ OMX Iceland.

The New Shares will be delivered electronically through the depository agent, the Icelandic Security Depository, Laugavegur 182, Reykjavík, Iceland. The earliest date on which the New Shares will be admitted to trading on the NASDAQ OMX main market is 11 January 2011. The share offer will only take place in Iceland.

10.2 Market making

Following the issue of the Securities Note, Icelandair Group projects to reach an agreement with market maker/makers in order to facilitate the trading. At the date of the issue of this Securities Note no such agreement has been made by the Issuer.

10.3 Expense of the Issuer

The estimated net proceeds of the share offering from 8 December to 23 December 2010 will be ISK 2,594,523,750 if all the New Shares in the share offer will be sold

The commission payable to the Listing Advisor for placing the New Shares and preparing the Prospectus is ISK 1.75% of the total proceeds from the share offering. The charges from NASDAQ OMX Iceland total ISK 1,250,000. The cost payable by the Company to the Icelandic Securities Depository is estimated under ISK 100,000. Stamp duty costs payable by the Company are estimated ISK 5,295,000 if 1,059,000,000 New Shares will be issued. The maximum cost for the issue of the New Shares will therefore be ISK 52,976,250 if all shares available in the share offering will be issued.

The Company bears all cost of the issue of New Shares. If the share offering will be cancelled without any shares being issued there will be no costs payable to the issuer.

10.4 Dilution

On the date of this Securities Note, the total number of shares in Icelandair Group is ISK 3,941,000,000 in nominal value, divided into an equal number of shares, each with a nominal value of ISK 1.0.

The issue of the New Shares increases Icelandair Group’s share capital by 1,059,000,000 shares if all New Shares will be subscribed for. The total number of shares in Icelandair Group after the issue of the New Shares will be up to 5,000,0000,000 shares. Assuming that existing shareholders do not take part in the issue of the New Shares at all, and 1,059,000,000 New Shares will be issued, the resulting proportional dilution of their shares will be 20.2%.