



Icelandair Group hf.

December 2010

Supplement to the Prospectus comprising of a Registration Document dated 28 October 2010 and a Securities Note and Summary dated 7 December 2010.



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1 NOTICE TO INVESTORS

This Prospectus Supplement 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.

Furthermore this Prospectus Supplement is being published in accordance to Article 46 of the Securities Transactions Act No. 108/2007 which states that any new factor relating to information included in the Prospectus, which could be capable of affecting the assessment of the New Shares, the Issuer will publish a supplement to the Prospectus which will be published in the same process as the Prospectus.

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

This Prospectus Supplement 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. The share offer in the Company will only take place in Iceland.

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 Prospectus Supplement, 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 Prospectus Supplement is correct as of any date subsequent to 20 December 2010.

This Prospectus Supplement 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 Prospectus Supplement 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 the Prospectus. They are advised to pay particular attention to *Chapter 1 Risk Factors* of both the Securities Note dated 7 December 2010 and the Registration Document dated 28 October 2010. All of the abovementioned documents which are, Icelandair Group Registration Document dated 28 October 2010 and this Prospectus Supplement dated 20 December 2010, a Securities Note that contains an update of the Registration Document from 28 October 2010 and a Summary, both 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 Reykjavik, 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 Prospectus Supplement, which is published in English only.

2 SUPPLEMENT TO THE PROSPECTUS

This Prospectus supplement “Prospectus Supplement” dated 20 December 2010 has been prepared in relation to the offer to subscribe to 500,000,000 to 1,059,000,000 New Shares in Icelandair Group and admission to trading on NASDAQ OMX Iceland Main Market. The Prospectus Supplement must be read in conjunction with the Icelandair Group Prospectus comprising of a Registration Document dated 28 October 2010, a Summary and Securities Note dated 7 December 2010, in all respects and the definitions used in the Prospectus shall apply to the Prospectus Supplement.

This supplement has been prepared in order to update certain information contained in the Prospectus, i.e. *Chapter 27.2 Overview of the Financial Restructuring* in the Registration Document dated 28 October 2010.

2.1 Changes regarding the financial restructuring

Icelandair Group wants to update the information in *Chapter 27.2 Overview of the Financial Restructuring* in the Registration Document dated 28 October 2010 regarding certain conditions which are expected to be satisfied or waived by SPW ehf. and Vindabúðir ehf, (effectively Islandsbanki hf, and Glitnir bank hf. (the “**Banks**”)) as soon as practicable in relation to the financial restructuring of the Company. As of the date of this Prospectus Supplement the outstanding conditions preventing completion of the restructuring are as follows:

- + An approval from competition authorities in Iceland and Latvia for the sale and purchase of the shares in Bluebird Cargo ehf. and SmartLynx respectively;
- + The Company and SPW ehf. have not entered into the following agreements:
 - o Shareholders' agreement in terms of IG Invest ehf. that outlines how IG Invest will be controlled;
 - o Service agreement in terms of IG Invest whereas the Company undertakes to manage IG Invest on behalf of SPW ehf.;
- + SPW ehf. shall have call options on the Company's shareholding in IG-Invest. The Company and Vindabúðir ehf. have not entered into an operating agreement in relation to SmartLynx;
- + Exemptions from the Central Bank of Iceland from the Rules on Foreign Exchange, No. 370/2010 (issued by the Central Bank of Iceland), with regards to the sale and purchase of the shares in Travel Service and SmartLynx;
- + A written confirmation from certain creditors of Travel Service and SmartLynx, confirming that (i) the relevant loans are not in default and (ii) the Company can transfer the title of the shares in Travel Service and SmartLynx;
- + Waiver letters in relation to change of control provisions in certain agreements entered into by Bluebird Cargo;

Approvals from the government institutions mentioned above are not within the control of the Company and the Company and the buyers have done everything within their power to facilitate the process.

The Company has been in contact with the relevant creditors of Smartlynx and Travel Service and is doing everything within its power to receive a sign-off from the creditors.

The Company has received a draft shareholders agreement and a draft call option agreement from the Banks and has sent through its comments on the documents. The Company has however not received a draft service agreement or operating agreement from the Banks. Please note that the parties signed memoranda of understanding on 21 October 2010 in relation to the service agreement and the operating agreement. The Company expects to receive drafts of these documents once it is foreseen when the conditions set out above will be satisfied. Due to the delay of receiving the approvals from the government institutions and the relevant creditors, there has not been a need to rush the process of finalizing these documents. The Company does not expect any material issues in relation to finalizing these documents.

It should be noted that the above conditions are largely formalities which are expected to be concluded before the end of January 2011. The only item that the Company does not consider to be a formality is the confirmation from creditors of Travel Service and SmartLynx.

2.2 Optional arrangement for investors

Those investors who have registered for New Shares in the Company or in any other manner consented to purchase or subscribe for New Shares in the Company are entitled to withdraw their subscription within two business days from the publication of the Prospectus Supplement dated 20 December 2010 in accordance with 2 paragraph of Article 46 of the Securities Transactions Act No. 108/2007. Such withdrawal must be submitted in writing to Íslandsbanki Eignastýring Kirkjusandi, 155 Reykjavík, with signature on relevant forms which can be located on www.isb.is/icelandair. If problems arise investors are advised to contact Eignastýring Íslandsbanka via phone number +354-440-4920. Those persons who submitted their subscription through a trustee should contact this trustee regarding withdrawal. Subscriptions that are not withdrawn will remain binding and those subscribers who wish to remain as subscribers do not need to take any further action.

2.3 Issuer's Statement

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

Reykjavik, 20 December 2010
Reykjavik Airport, 101 Reykjavik, Iceland:

Sigurdur Helgason,
Chairman of the Board of Directors,
Icelandic ID No. 010546-2069

And

Björgólfur Jóhannsson,
CEO,
Icelandic ID No. 280855-3409.