



ICELANDAIR GROUP HF.

MAY 2007



(incorporated in Iceland as a public limited company)

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1. RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bills. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Bills are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Bills but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Bills may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate.

Risks Relating to the Bills

Set out below is a brief description of certain risks relating to the Bills generally:

Issuer's liability to make payments under the Bills

The Issuer is liable to make payments when due on the Bills. The obligations of the Issuer under the Bills are direct, unsecured, unconditional and unsubordinated obligations, ranking *pari passu* without any preference amongst themselves and equally with its other direct, unsecured, unconditional and unsubordinated obligations (save for any obligations required to be preferred by law).

The Issuer has not entered into any restrictive covenants in connection with the issuance of the Bills regarding its ability to incur additional indebtedness ranking *pari passu* to the obligations under or in connection with the Bills.

No Prior Public Market

The Bills constitute a new issue of Bills. Prior to listing, there has been no public market for the Bills. Although application has been made to admit the Bills to trading on the regulated Market of the ICEX, there can be no assurance that an active public market for the Bills will develop and, if such a market were to develop, the Manager are under no obligation to maintain such a market. The liquidity and the market prices for the Bills can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and other factors that generally influence the market prices of securities. Such fluctuations may significantly affect the liquidity and the market prices of the Bills, which may trade at a discount to the price at which a purchaser purchased the Bills.

An investment in the Bills may not be suitable for all prospective investors

The Bills are not suitable investments for all investors. In particular, prospective investors should not purchase the Bills unless they have sufficient knowledge and experience to make meaningful evaluation of the credit, liquidity and market risks associated with the Bills.

Prospective investors should possess, either alone or together with an investment advisor, the expertise necessary to evaluate the information contained in this Securities Note in the context of its financial situation and tolerance for risk. Potential Investors should carefully consider, among other things, the factors described in this section before purchasing the Bills.

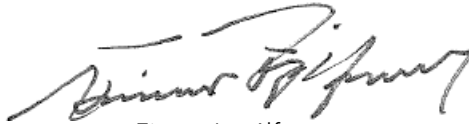
Change of law

The terms and conditions of the Bills are based on Icelandic law in effect as at 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. PERSON RESPONSIBLE

Icelandair Group hf., in its capacity as the Issuer, Icelandic ID-No. 631205-1780, registered office at Reykjavíkurlugvelli, 101 Reykjavík, Iceland, hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík 8 May 2007
On behalf of the Issuer



Finnur Ingólfsson
Chairman of the board

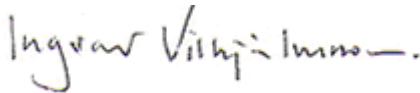


Jón Karl Ólafsson
CEO

3. MANAGER

The Manager, Kaupthing Bank hf. - Capital Markets division, Icelandic ID-No. 560882-0419, registered office at Borgartun 19, 105 Reykjavík, Iceland has been the advisor to the Issuer in the preparation of this Securities Note. The Manager 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 Manager as to the accuracy or completeness of the information contained or incorporated in this document or any other information provided by the Issuer in connection with the Bills of Exchange ("Bills"). The Manager does not accept any liability in relation to the information contained or incorporated by reference in this document or any other information provided by the Issuer in connection with the Bills.

Reykjavik, 8 May 2007
On behalf of the Manager



Ingvar Vilhjálmsson
Managing Director



Stefán Ákason
Head of Bond Trading

4. REFERENCES AND GLOSSARY OF TERMS AND ABBREVIATIONS

References to the "Issuer", "Icelandair" and "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, and its subsidiaries and affiliates, unless otherwise clear from the context. Icelandair Group hf. is the legal Icelandic name of the Issuer.

References to "ICEX" in this Securities Note shall be construed as referring to the Iceland Stock Exchange, i.e. to Kauphöll Íslands hf., Icelandic ID-No. 681298-2829, unless otherwise clear from the context. References to the "admission to trading" and the "admission to trading on a regulated market" in this Securities Note shall be construed as referring to the admission to trading on the bond market of the Iceland Stock Exchange, unless otherwise clear from the context.

References to "ISD" in this Securities Note shall be construed as referring to the Icelandic Securities Depository, i.e. to Verðbréfaskráning Íslands hf., Icelandic ID-No. 500797-3209, Laugavegi 182, 105 Reykjavik, unless otherwise clear from the context.

References to the "Manager" in this Securities Note shall be construed as referring to Kaupthing Bank hf. - Capital markets division, Icelandic ID-No. 560882-0419, unless otherwise clear from the context.

References to the "Bills" in this Securities Note shall be construed as referring to the Bills of Exchange issue of ISK 6,240,000,000 which is described in this Securities Note, unless otherwise clear from the context

5. DOCUMENTS INCORPORATED

The Registration document and the appendices, which is a part of the prospectus dated 9 February 2007 and published 12 February 2007, is issued by the Issuer in respect of the share offering and which constitutes a Registration document, a Share Securities note and a Summary note for the purposes of the Prospectus Directive form part of this Prospectus in its entirety. This Securities Note must be read in conjunction with the Registration Document and the appendices full information on the Issuer is only available on the basis of the combination of this Securities Note, the Registration Document and the appendices.

The following documents are incorporated herein by reference to, and form part of, this Prospectus:

- a. The annual account of Icelandair Group hf. for the operating year 2005.
- b. The annual account of Icelandair Group hf. for the operating year 2006.

Copies of the aforementioned documents which form a part of this Prospectus and documents incorporated by reference can be obtained from the Issuer's office and website (www.icelandairgroup.is). In addition, such documents will be available, for Bills admitted to the official list of the ICEX and to trading on the Regulated Market of the Iceland Stock Exchange. This Prospectus will be published on the ICEX's news web (<http://omxgroup.com/nordicexchange/Markadsfrettir/Fyrirtaekjatilkygningar/>) when the Bills will be admitted to trading.

6. NOTICE TO INVESTORS

In making an investment decision, potential investors should carefully consider the merits and risks of an investment in the Bills and carefully review the terms and conditions of the Bills described under issue and Bills characteristics.

This Securities Note is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference"). This Securities Note shall be read and construed on the basis that such documents are incorporated and form part of this Securities Note.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Securities Note or any other information supplied in connection with the Bills and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Manager.

Neither this Securities Note nor any other information supplied in connection with the Bills (a) is intended to provide the basis of any credit or other evaluation; or (b) should be considered as a recommendation by the Issuer or the Manager that any recipient of this Securities Note or any other information supplied in connection with the Bills should purchase any Bills. Each investor contemplating purchasing any Bills should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Securities Note nor any other information supplied in connection with the Issuer constitutes an offer or invitation by or on behalf of the Issuer or the Manager to any person to subscribe for or to purchase any Bills.

Neither the delivery of this Securities Note nor the sale or delivery of any Bills shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Bills is correct as of any time

subsequent to the date indicated in the document containing the same. The Manager expressly does not undertake to review the financial condition or affairs of the Issuer during the life of the Bills or to advise any investor in the Bills of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Securities Note when deciding whether or not to purchase any Bills.

The Bills have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, Bills may not be offered, sold or delivered within the United States or to U.S. persons.

7. KEY INFORMATION

In addition to any fees payable to the Manager in connection with this issue, the Issuer's and the Bank's interests are connected in the following manner:

- Icelandair Group is a customer of Kaupthing Bank's Capital Markets divisions.

8. INFORMATION CONCERNING THE SECURITIES TO BE ADMITTED TO TRADING

Authorisation

On a board meeting held 31 January 2007, the board of Icelandair Group hf. authorised to issue up to one year bill issue for a maximum of ISK 8 billion. This Issuer has at the date of this Securities Note issued bills amounting in total to ISK 6,240,000,000 under IAIR 08 0131.

Issue and Bill characteristics

The Bills bear no interest and are not indexed. The Bills are registered electronically at the Icelandic Securities Depository and are registered there under the name of the relevant billholder or his/her nominee. The Bills are all in the same class, and the ticker symbol on ICEX will be IAIR 08 0131.

The Bills constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

Date of issue:	31 January 2007
Nominal amount:	ISK 8,000,000,000
Issued amount:	ISK 6,240,000,000
Denomination:	ISK 5,000,000
Currency:	ISK
Interest rates:	The Bills bear no interest.
Calculation agent:	Kaupthing Bank hf.
Maturity date:	The date of maturity is 31 January 2008. Repayment is made on the aforementioned maturity date. It is not permitted to bring forward the repayment of the Bills.
Method of payment:	All amounts payable under the Bills will be paid to relevant financial institution where the registered owner has his/her VS account.
Indication of yield:	16.50%
Restrictions on transfer:	There are no restrictions on transferring the Bills to other parties.
ISIN code:	IS0000014090

Event of Default, Acceleration and Enforcement

If default occurs the Issuer shall pay default interest at the rate determined by the Central Bank of Iceland, cf. paragraph 1, article 6 of Act no. 38/2001.

Prescription

All claims according to the Bills against the acceptor expire three years after maturity, cf. paragraph 1, article 70 of Act no. 93/1933 on Bills.

Taxation

All payments in respect of the Bills, by the Issuer will be made without withholding or deduction

for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any tax jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will not pay any additional amounts in respect of amounts withheld pursuant to such withholding or deduction.

Governing Law

The governing law is Icelandic law. The Issuer irrevocably agrees that any dispute shall be subject to the exclusive jurisdiction of the District Court of Reykjavík (Héraðsdómur Reykjavíkur).

Legal action regarding the Bills may be proceeded with in accordance with Chapter 17 of the Act on Civil Procedure No. 91/1991 (Lög um meðferð einkamála).

The issued bills are governed by Act no. 93/1933 on Bills as appropriate, cf. article 35 of Act No. 131/1997 on Electronic Registration of Title to Securities.

Admission to trading

Application has been made to the Icelandic Stock Exchange (the **ICEX**) as the competent authority in Iceland for the purpose of Directive 2003/71/EC (the **Prospectus Directive**), the Icelandic law no 33/2003, as amended and the relevant regulations based on the law for approval of this Securities Note. Application has also been made for the Bills to be admitted to trading on the regulated market of the ICEX, which is an EU regulated market within the meaning of Directive 2004/39/EC.

The Bills will be admitted to trading on the Iceland Stock Exchange, 9 May 2007. The Issuer published a prospectus 12 February 2007 in connection to the company's shares being listed on ICEX.

Expenses of the admission to trading

The expenses related the listing of the Bills ISK 450,000 according to ICEX fee structure. Annual expenses because of this listing will be fixed fee of ISK 165,000 plus a variable fee of 0.001% of the market value of the Bills according to ICEX fee structure. The estimated cost at the ISD is ISK 120,000. The Issuers cost relating to the preparation of the Prospectus is ISK 250,000.

9. FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

Operations

The financial statements contain the consolidated accounts of Icelandair Group hf. and its subsidiaries. Icelandair Group is a holding company with 12 independent subsidiaries, focused on the airline and tourism sectors. Icelandair Group is listed on the Icelandic stock exchange (ICEX) as ICEAIR. The largest subsidiary is the international airline Icelandair, which is responsible for approximately 50% of the group's turnover, and it is followed by Loftleidir Icelandic and Bluebird Cargo. Other companies are Icelandair Cargo, Icelandair Ground Services, Icelandair Technical Services, Air Iceland, Icelandair Hotels, Iceland Travel and Icelandair Shared Services (Fjárvakur). The group employs about 2,700 people.

Income

Operating income for 2006 totalled ISK 56.1 billion, an increase of 23% from 2005. Transport Revenues 2006 totalled ISK 35 billion, compared with **29.4** billion in 2005, an increase of **19%**. The increase can be attributed to higher number of passengers, better passenger mix, more freight transport and favourable exchange rates. Revenues from Charter and AC lease amounted to 10.7 billion, compared to 8.1 billion, an increase of 32%. The acquisition of Lat Charter in the middle of the year 2006 and increased leasing activities by Icelandair Cargo and Bluebird Cargo explain this increase. Other operating revenue totalled ISK 10.5 billion, an increase of 31% from 2005.

Expenses

Operating expenses in 2006 totalled ISK 50.1 billion, an increase of ISK 23% from 2005. Salaries and Salary related expenses totalled ISK **17.8** billion in 2006 compared with **15.5** billion in 2005 an increase of **15%**. The reason for this increase is growth in the operation, salary increases and wage drift. Fuel expenses totalled 9.5 billion in 2006, compared with 7.3 billion in 2005, an increase of 30%. Increased production, higher USD and higher fuel price explain this increase. Aircraft and Aircrew lease amounted to ISK 5.2 billion and increased ISK 2.2 billion from 2005 due to increased number of aircraft in the Group's fleet. Aircraft maintenance totalled ISK 3.1 billion, compared with ISK 1.9 billion in 2005. Maintenance cost is a very fluct-

tuating cost item and the main reason for this increase are many large inspections on engines, which were performed in 2006 and are very costly. In addition modifications were made on aircraft in the Icelandair fleet, including installation of winglets and renewal of cabin interior. Other operating expenses totalled ISK 17.2 billion compared to ISK 15.3 billion in 2005, an increase of 12%.

Net finance cost totalled ISK 426 billion. Financial income totalled ISK 1.6 billion and financial expense totalled ISK 2 billion. A comparison to last year is not available.

Total profit for the year 2006 reached ISK 2,615 million.

Key Figures - Icelandair Group hf.

(All amounts in ISK millions)

Profit & Loss Account	1.10-31.12 2006	1.1-31.12 2006
		Proforma
Operational revenues	12,590	56,143
Operational costs	-12,252	-50,085
EBITDA	338	6,058
Depreciation and amortisation	-732	-2,732
EBIT	-394	3,326
Net financial expenses	-432	-426
Pre-tax profit	-757	3,060
Income tax	207	-445
Total profit for the period	-550	2,615

Cash Flow		
Net cash from operating activities	-25	6,368
Cash from investment activities	-17,767	-21,040
Cash from financing activities	20,464	17,320

Balance Sheet

Icelandair Group's total assets as of 31 December 2006 totaled ISK 77.2 billion. Operating assets totaled ISK 22.9 billion and consist mainly of aircraft, which account for ISK 19 billion. Intangible assets amounted to ISK 27.8 billion. The Group's total equity amounted to ISK 26 billion. The equity ratio is 34%. The total number of shareholders as of 31 December 2006 was 1,507. Three shareholders owned over 10% of the share capital: Langflug with 32%, Naust ehf. with 14.8% and Fjárfestingafélagið Máttur ehf. with 11.1%.

Balance Sheet (ISK millions)	
Non-current assets	65,196
Current assets	11,421
Total assets	76,617
Equity	26,004
Loans and borrowing	21,607
Deferred tax liability	360
Non-current liability	21,967
Current liability	28,646
Total equity and liabilities	76,617

10. NEW DEVELOPMENT

LatCharter, the Latvian airline owned by Loftleidir Icelandic, a subsidiary of Icelandair Group has signed an agreement with Virgin Nigeria Airlines, a subsidiary of Virgin Atlantic Airways. From April this year LatCharter will operate two Boeing 767-300ER aircraft on the daily flight route between London, England and Johannesburg, South-Africa, through Lagos, Nigeria

This agreement is the largest in the history of Loftleidir Icelandic and LatCharter, worth 7.3 billion ISK in the next 4 years. The contract will generate revenue of 2.1 billion ISK per year in year one and two and 1.5 billion per year for the rest of the contract. This contract is an important milestone on that route; it increases turnover fast, it opens new markets and opportunities for further growth".