



Icelandair Group hf.

relating to the listing of

up to a maximum of USD 300,000,000 Senior Unsecured Floating
Rate Bonds due 2021

ISIN: NO0010776982

Sole Bookrunner

The logo for Pareto Securities, featuring a stylized blue arc above the word "Pareto" in a large, blue, serif font, followed by the word "Securities" in a smaller, blue, sans-serif font.

Prospectus dated 21 December 2016

IMPORTANT NOTICE:

This prospectus (the "**Prospectus**") has been prepared by Icelandair Group hf. (the "**Issuer**", or the "**Company**" or together with its direct and indirect subsidiaries unless otherwise indicated by the context, the "**Group**"), a public limited liability company incorporated in Iceland, having its headquarters located at the address, Reykjavik Airport, 101 Reykjavik Iceland, with reg. no. 631205-1780, in relation to the application for the listing of the senior unsecured floating rate bonds denominated in USD (the "**Bonds**") on the corporate bond list on NASDAQ OMX Stockholm Aktiefbolag, reg. no. 556420-8394 ("**Nasdaq Stockholm**"). Pareto Securities AB has acted as sole bookrunner in connection with the issue of the Bonds (the "**Sole Bookrunner**"). This Prospectus has been prepared in accordance with the standards and requirements of the Swedish Financial Instruments Trading Act (Sw. *lag (1991:980) om handel med finansiella instrument*) (the "**Trading Act**") and the Commission Regulation (EC) No. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC as amended by the Directive 2010/73/EC of the European Parliament and of the Council (the "**Prospectus Regulation**"). The Prospectus has been approved and registered by the Swedish Financial Supervisory Authority (Sw. *Finansinspektionen*) (the "**SFSA**") pursuant to the provisions of Chapter 2, Sections 25 and 26 of the Trading Act. Approval and registration by the SFSA does not imply that the SFSA guarantees that the factual information provided in this Prospectus is correct and complete. This Prospectus has been prepared in English only and is governed by Swedish law and the courts of Sweden have exclusive jurisdiction to settle any dispute arising out of or in connection with this Prospectus. This Prospectus is available at the SFSA's website (www.fi.se) and the Issuer's website (<http://www.icelandairgroup.is/>).

Unless otherwise stated or required by context, terms defined in the terms and conditions for the Bonds beginning on page 58 (the "**Terms and Conditions**") shall have the same meaning when used in this Prospectus.

Except where expressly stated otherwise, no information in this Prospectus has been reviewed or audited by the Company's auditor. Certain financial and other numerical information set forth in this Prospectus has been subject to rounding and, as a result, the numerical figures shown as totals in this Prospectus may vary slightly from the exact arithmetic aggregation of the figures that precede them. This Prospectus shall be read together with all documents incorporated by reference in, and any supplements to, this Prospectus. In this Prospectus references to "**ISK**" refer to Icelandic krona and references to "**USD**" refer to American Dollars.

Investing in bonds is not appropriate for all investors. Each investor should therefore evaluate the suitability of an investment in the Bonds in light of its own circumstances. In particular, each investor should:

- (a) have sufficient knowledge and experience to carry out an effective evaluation of (i) the Bonds, (ii) the merits and risks of investing in the Bonds, and (iii) the information contained or incorporated by reference in the Prospectus or any supplements;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate in the context of its particular financial situation the investment in the Bonds and the impact that such investment will have on the investor's overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks resulting from an investment in the Bonds, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the investor's own currency;
- (d) understand thoroughly the Terms and Conditions and the other Finance Documents and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the assistance of a financial adviser) possible scenarios relating to the economy, interest rates and other factors that may affect the investment and the investor's ability to bear the risks.

This Prospectus is not an offer for sale or a solicitation of an offer to purchase the Bonds in any jurisdiction. It has been prepared solely for the purpose of listing the Bonds on the corporate bond list on Nasdaq Stockholm. This Prospectus may not be distributed in or into any country where such distribution or disposal would require any additional prospectus, registration or additional measures or contrary to the rules and regulations of such jurisdiction. Persons into whose possession this Prospectus comes or persons who acquire the Bonds are therefore required to inform themselves about, and to observe, such restrictions. The Bonds have not been and will not be registered under the US Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds are being offered and sold outside the United States to purchasers who are not, or are not purchasing for the account of, U.S. persons in reliance upon Regulation S under the Securities Act. In addition, until 40 days after the later of the commencement of the offering and the closing date, an offer or sale of the Bonds within the United States by a dealer may violate the registration requirements of the Securities Act if such offer or sale of the Bonds within the United States by a dealer may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to an exemption from registration under the Securities Act.

The offering is not made to individuals domiciled in Australia, Japan, Canada, Hong Kong, the Italian Republic, New Zealand, the Republic of Cyprus, the Republic of South Africa, the United Kingdom, the United States (or to any U.S person), or in any other country where the offering, sale and delivery of the Bonds may be restricted by law.

This Prospectus may contain forward-looking statements and assumptions regarding future market conditions, operations and results. Such forward-looking statements and information are based on the beliefs of the Company's management or are assumptions based on information available to the Group. The words "considers", "intends", "deems", "expects", "anticipates", "plans" and similar expressions indicate some of these forward-looking statements. Other such statements may be identified from the context. Any forward-looking statements in this Prospectus involve known and unknown risks, uncertainties and other factors which may cause the actual results, performances or achievements of the Group to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. Further, such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Although the Company believes that the forecasts of, or indications of future results, performances and achievements are based on reasonable assumptions and expectations, they involve uncertainties and are subject to certain risks, the occurrence of which could cause actual results to differ materially from those predicted in the forward-looking statements and from past results, performances or achievements. Further, actual events and financial outcomes may differ significantly from what is described in such statements as a result of the materialisation of risks and other factors affecting the Group's operations. Such factors of a significant nature are mentioned in the section "**Risk factors**" below.

This Prospectus shall be read together with all documents that are incorporated by reference, see subsection "**Documents incorporated by reference**" under section "**Other information**" below, and possible supplements to this Prospectus.

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SUMMARY

This summary is made up of disclosure requirements known as "Sections". These Sections are numbered in sections A–E (A.1–E.7).

This summary contains all the Sections required to be included in a summary for this type of securities and issuer. Because some Sections are not required to be addressed, there may be gaps in the numbering sequence of the Sections.

Even though an Section may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Section. In this case a short description of the Section is included in the summary with the mention of "not applicable".

SECTION A – INTRODUCTION AND WARNINGS		
A.1	Introduction and warnings:	This summary should be read as an introduction to the Prospectus. Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the member states, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability can only be imposed on those persons who have put forward the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.
SECTION B – ISSUER		
B.1	Legal and commercial name:	Icelandair Group hf., reg. no. 631205-1780.
B.2	Domicile, legal form, legislation and country of incorporation:	Icelandair Group hf., is a public limited liability company incorporated under the laws of Iceland and governed by Icelandic law.
B.4b	Tendencies:	<p>Air travel passenger growth has historically tracked GDP growth closely, however at a multiple in excess of 2x. Long-term forecasts point to a continuation of this trend, with global airline traffic expected to grow at nearly 5 per cent p.a. over the period 2015-2034. In the long run, air travel has shown strong resilience to demand-side shocks such as the Gulf Wars, 9/11 attacks, SARS or the global financial crisis.</p> <p>Following a steep downturn in the wake of the global financial crisis, the Iceland economy has recovered strongly in recent years. GDP grew solidly in excess of the world average in 2015, with outperformance expected to continue over the coming years due to growth in imports and exports, fuelled in particular by the tourist industry. The inflation has stabilised.</p> <p>Following the financial crisis, tourist arrivals to Iceland fell in 2009 and 2010 but recent years have seen a remarkable turnaround in this statistic. The number of tourist arrivals to Iceland reached nearly 1.3 million in 2015, representing growth of more than 30 per cent over</p>

		2014 and a more than two-fold increase over 2011 and approximately 98 per cent of tourist arrivals are through Keflavik. Revenues from tourism to Iceland more than doubled between 2010 and 2015, from USD 1.4 billion to USD 3.2 billion.																																																																						
B.5	Description of the group and the Issuer's position within the group.	The Issuer is the ultimate parent company of a group consisting of 11 companies (including the Issuer). Fjárvakur-fjármálathjónusta ehf., Flugleiahotel ehf., Flugleiðahótel ehf., IGS ehf., Loftleidir-Icelandic ehf., Flugfélag Íslands., Iceland Travel ehf., Icelandair Cargo ehf., FERIA ehf. and Icelandair ehf., are wholly owned subsidiaries of the Issuer. The Issuer is also the indirect owner of Airco ehf., which is a wholly owned subsidiary of Icelandair ehf.																																																																						
B.8	Selected pro forma financial information:	Not applicable. The prospectus contains no pro forma accounting.																																																																						
B.9	Profit forecasts:	Not applicable. The prospectus contains no profit/loss forecast.																																																																						
B. 10	Complaints in the audit report:	Not applicable. There are no remarks in the audit reports.																																																																						
B.12	Selected historical financial information:	<p>The information below is derived from the Issuer's audited annual report for 2014 and 2015, which are prepared according to IFRS, and the unaudited financial statements for the periods 2016-01-01 - 2016-09-30 and 2015-01-01 – 2015-09-30, which are prepared according to IAS, Interim Financial Reporting. The content has not been specifically reviewed by the Issuer's auditor.</p> <p>No material adverse change has occurred since the date of the Issuer's latest audited accounts.</p> <p>Summary income statement</p> <table border="1"> <thead> <tr> <th>(MUSD)</th> <th>2016-01-01 – 09-30</th> <th>2015-01-01 – 09-30</th> <th>2015-01-01 – 12-31</th> <th>2014-01-01 – 12-31</th> </tr> </thead> <tbody> <tr> <td>Transport revenue</td> <td>762,037</td> <td>685,686</td> <td>848,868</td> <td>811,002</td> </tr> <tr> <td>Aircraft and aircrew lease</td> <td>66,199</td> <td>58,243</td> <td>83,356</td> <td>74,754</td> </tr> <tr> <td>Other operating revenue</td> <td>200,866</td> <td>165,804</td> <td>207,475</td> <td>227,541</td> </tr> <tr> <td>Total operating income</td> <td>1,029,102</td> <td>909,733</td> <td>1,139,699</td> <td>1,113,297</td> </tr> <tr> <td>Operating expenses</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Personnel expenses</td> <td>256,078</td> <td>201,665</td> <td>280,244</td> <td>273,161</td> </tr> <tr> <td>Aviation expenses</td> <td>331,658</td> <td>322,107</td> <td>406,649</td> <td>457,296</td> </tr> <tr> <td>Other operating expenses</td> <td>223,974</td> <td>182,237</td> <td>233,824</td> <td>228,502</td> </tr> <tr> <td>Operating profit</td> <td>811,710</td> <td>706,009</td> <td>920,717</td> <td>958,959</td> </tr> <tr> <td>Operating profit before EBITDA</td> <td>217,392</td> <td>203,724</td> <td>218,982</td> <td>154,338</td> </tr> <tr> <td>Operating profit before tax</td> <td>142,305</td> <td>140,373</td> <td>140,223</td> <td>79,908</td> </tr> <tr> <td>Income tax for the period</td> <td>30,367</td> <td>29,417</td> <td>29,000</td> <td>15,483</td> </tr> <tr> <td>Profit for the period</td> <td>111,938</td> <td>110,956</td> <td>111,223</td> <td>66,499</td> </tr> </tbody> </table>	(MUSD)	2016-01-01 – 09-30	2015-01-01 – 09-30	2015-01-01 – 12-31	2014-01-01 – 12-31	Transport revenue	762,037	685,686	848,868	811,002	Aircraft and aircrew lease	66,199	58,243	83,356	74,754	Other operating revenue	200,866	165,804	207,475	227,541	Total operating income	1,029,102	909,733	1,139,699	1,113,297	Operating expenses					Personnel expenses	256,078	201,665	280,244	273,161	Aviation expenses	331,658	322,107	406,649	457,296	Other operating expenses	223,974	182,237	233,824	228,502	Operating profit	811,710	706,009	920,717	958,959	Operating profit before EBITDA	217,392	203,724	218,982	154,338	Operating profit before tax	142,305	140,373	140,223	79,908	Income tax for the period	30,367	29,417	29,000	15,483	Profit for the period	111,938	110,956	111,223	66,499
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Balance sheet				
	2016-09-30	2015-09-30	2015- 12-31	2014-12-31
(MUSD)				
Assets				
Operating Assets	545,227	353,138	419,071	319,340
Intangible assets	174,533	173,762	172,694	175,973
Investments in associates	22,413	18,678	18,223	2,324
Deferred cost	75	137	118	153
Receivables and deposits	68,486	26,251	27,474	16,413
Non-current assets	810,486	571,966	637,580	514,203
Inventories	20,999	25,388	19,205	22,906
Trade and other receivables	153,568	133,081	101,075	96,470
Assets held for sale	4,148	0	0	0
Short term investments	3,173	28,472	19,533	30,879
Cash and Cash equivalents	191,397	256,553	194,586	184,762
Current assets	373,285	443,494	334,399	335,017
Total assets	1,184,019	1,015,460	971,979	849,220
Equity and Liabilities				
Share capital	40,576	40,576	40,576	40,576
Share premium	154,705	154,705	154,705	154,705
Reserves	113,114	16,764	1,400	3,195
Retained earnings	274,137	259,405	259,746	166,371
Equity attributable to equity holders of the Company	582,532	471,450	456,427	364,847
Non-controlling interest	353	184	104	208
Total equity	582,885	471,634	456,531	365,055
Non-current liabilities	140,208	131,293	99,516	82,643
Current liabilities	460,926	412,533	415,932	401,522
Total Liabilities	601,134	543,826	515,448	484,165
Total equity and liabilities	1,184,019	1,015,460	971,979	489,220

		Cash flow			
		2016-01-01 – 09-30	2015-01-01 – 09-30	2015-01-01 – 12-31	2014-01-01 – 12-31
		(MUSD)			
		Cash flow from operating activities			
		Profit for the year	111,938	110,956	111,223
		Adjustments for: Depreciation and amortization	74,588	62,752	83,826
		Adjustments for: Other operating items	34,976	34,473	16,211
		Working capital from operations	221,502	208,181	211,260
		Net cash from operating activities	248,495	208,496	245,136
		Net cash used in investing activities	221,773	132,435	219,942
		Net cash used in financing activities	34,084	3,704	14,320
		Cash and cash equivalents at end of period	191,397	256,553	194,586
					184,762
B.13	Events that affect solvency:	No events have recently occurred and which could have a material impact on the assessment of the Issuer's solvency.			
B.14	Dependency on subsidiaries	A significant part of the Group's assets and revenues relate to the Issuer's subsidiaries. The Issuer is thus dependent upon receipt of sufficient income and cash flow related to the operations of the subsidiaries.			
B.15	Primary operations:	The Group primarily operates in the airline transportation and tourism industry.			
SECTION C – SECURITIES NOTE					
C.1	Securities offered	Bonds issued by the Company with ISIN number NO0010776982.			
C.2	Currency:	USD.			
C.5	Transferability Restrictions:	(a) No Bondholder may offer, sell, pledge or otherwise transfer any Bond except: <ul style="list-style-type: none"> (i) to the Issuer; (ii) to a person who the seller reasonably believes is a QIB within the meaning of Rule 144A under the Securities Act purchasing for its own account or for the account or benefit of a QIB in a transaction meeting the requirements of Rule 144A; 			

		<p>(iii) outside the United States in compliance with Rule 903 or Rule 904, as applicable, of Regulation S under the Securities Act;</p> <p>(iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available); or</p> <p>(v) pursuant to an effective registration statement under the Securities Act,</p> <p>provided however that in each case a transfer is made in accordance with all applicable securities laws of the states of the United states and any other jurisdiction.</p> <p>(b) The Bonds may not, subject to applicable Canadian laws, be traded in Canada for a period of four (4) months and a day from the date the Bonds were originally issued.</p> <p>(c) The Issuer makes no representation as to the availability of an exemption from registration provided by Rule 144 of the Securities Act.</p>
C.8	Rights attached to the securities, including ranking and limitations of rights:	<p>When issued, the Bonds will be debt instruments under the Swedish Financial Instruments Accounts Act (1998:1479). The bonds will carry the right to repayment of the nominal amount and interest on the relevant due date. The Bonds will be unsecured.</p> <p>The bonds are issued under and governed by Swedish law.</p>
C.9	Rights attached to the securities, including the nominal interest rate, starting date for the interest calculation, interest due dates, any base interest rate, maturity, yield and any representatives of debenture holders:	<p><i>Interest rate:</i> LIBOR (3 months) plus 3.50 percentage points <i>per annum</i>. Interest payment date means 26 January, 26 April, 26 July and 26 October of each year and is calculated on the basis of the actual number of days in the interest period in respect of which payment is being made divided by 360 (actual/360-days basis).</p> <p><i>Amortization:</i> during the term of the Bonds, no amortization will be made.</p>
C.10	Information on interest payments based on derivative components:	N/A. The interest rate is not based on any derivative components.
C.11	Admission to trading:	The Company intends to list the Bonds on Nasdaq Stockholm not later than 60 calendar days after the First Issue Date and with an intention to complete such listing within 30 calendar days after the First Issue Date.
SECTION D – RISKS		
D2	Key risks specific to the Group and its industry:	Investing in the Bonds involves inherent risks. A number of risk factors and uncertainties may adversely affect the Issuer and the Group. The risks presented herein are not exhaustive, and other risks not discussed herein, not currently known or not currently considered to be material

		<p>may also affect the Group’s future operations, performance and financial position, and consequently the Group’s ability to meet its obligations under the Terms and Conditions. Further, the risk factors are not ranked in order of importance. Potential investors should consider carefully the information contained in this section and make an independent evaluation before making an investment in the Bonds.</p> <p>Market risk The Group is exposed to general market risk, i.e. fluctuations in market prices such as fuel prices, exchange rates, interest rates and carbon prices can materially impact the Group’s profitability. The failure to control such risks will have a negative impact on the Group and consequently adversely affect the Group’s earnings and financial position.</p> <p>Foreign currency risk The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in currencies other than the respective functional currencies of Group entities. Should the Group be unsuccessful in managing its exposure to foreign currency risks, the Group’s results of operations and financial position will be materially and adversely affected.</p> <p>Liquidity risk The Group faces the risk of having insufficient working capital to meet payments, e.g. due to inability or difficulties in liquidating its assets. There is a risk that the Group’s liquidity policy proves to be insufficient. If liquidity risks are materialized, it risks having a material adverse effect on the Group’s business, results of operations, financial position and future prospects.</p> <p>Credit risk The Group is exposed to credit risk linked to the amount of outstanding trade receivables, allocation of liquid funds, security payments, and agreements with financial institutions relating to financial operations, e.g. credit support annexes concerning hedging. There is a risk that adverse changes in the credit quality of the Group’s customers or other counterparties will affect the recovery and value of the Group’s assets and other provisions and consequently adversely affect the Group’s earnings and financial position.</p> <p>Airport access The Group operates an international route network based on a hub and spoke concept. This makes access to the right airports in its defined geographical market vital to maintain and open up gateways to large and competitive markets. At some airports, an air carrier needs landing and take-off authorisations (slots) before being able to introduce new services or expand its existing services. If the Group is not able to secure and retain slots, it could be restrained from competing in valuable markets. Further, access to airports is vital to minimize the likelihood of delays. Should any of the risks described above materialize, there is a risk that the Group’s results of operations and financial position will be materially and adversely affected.</p>
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		<p>Competition The Group faces intensive competition in all its fields of activities. The airline aspect of the Group's operations includes both scheduled and charter services for passengers and freight. The level of competition amongst airlines is high, and pricing decisions are heavily dependent on competition from other airlines. Should competition increase even further in any of the Group's key transport markets, including the Icelandic market, it risks having a considerable negative effect on the Group's profitability.</p> <p>Reassessment of taxes On 15 April 2015 the Internal Revenue Board issued a ruling where a decision made by the Director of Internal Revenue was confirmed. The ruling disallows the Group to recognize as expenses for tax purposes certain interest expenses on loans that were transferred to the Group as a result of a reverse acquisition in 2006. The management does not agree with the ruling and an appeal to the District Court of Reykjavik is in process. The effect of the ruling has not been recognized in the financial statements, but if the court case will be lost the Group's equity would be reduced by USD 7.9 million, thus negatively affecting the Group's financial position.</p>
D.3	Key risks specific to the securities:	<p>Refinancing risk The Group may eventually be required to refinance certain or all of its outstanding debt, including the Bonds. The Group's inability to refinance its debt obligations on favourable terms, or at all, risks having a material adverse effect on the Group's business, financial condition and results of operations and on the bondholders' recovery under the Bonds.</p> <p>Interest rate risks The Bonds' value depends on several factors, one of the most significant over time being the level of market interest. Investments in the Bonds involve a risk that the market value of the Bonds will be adversely affected by changes in market interest rates.</p> <p>The market price of the Bonds may be volatile The market price of the Bonds will be subject to significant fluctuations in response to actual or anticipated variations in the Group's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Bonds, as well as other factors. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, will adversely affect the market price of the Bonds without regard to the Group's operating results, financial condition or prospects.</p> <p>Risks relating to the Bonds being unsecured The Bonds constitute unsecured debt obligations of the Issuer. If the Issuer is subject to any foreclosure, dissolution, winding-up, liquidation, recapitalisation, administrative or other bankruptcy or insolvency proceedings, all of the Issuer's secured obligations must first be</p>

	<p>satisfied, potentially leaving little or no remaining assets in the Issuer for the bondholders. As a result, there is a risk that the bondholders will not recover any or full value. The bondholders will only have an unsecured claim against the assets (if any) in the Issuer for the amounts under or in respect of the Bonds, which means that the bondholders normally would receive payment (pro rata with other unsecured non-priority creditors) after any priority creditors have been paid in full.</p> <p>Subsidiaries, structural subordination and insolvency of subsidiaries A significant part of the Group's assets and revenues relate to the Issuer's subsidiaries. The subsidiaries are legally separated from the Issuer and the subsidiaries' ability to make payments to the Issuer is restricted by, among other things, the availability of funds, corporate restrictions and law. Furthermore, in the event of insolvency, liquidation or a similar event relating to one of the subsidiaries, all creditors of such subsidiary would be entitled to payment in full out of the assets of such subsidiary before any entity within the Group, as a shareholder, would be entitled to any payments. Thus, the Bonds are structurally subordinated to the liabilities of the subsidiaries. There is a risk that the Group and its assets will not be protected from any actions by the creditors of any subsidiary of the Group, whether under bankruptcy law, by contract or otherwise. In addition, defaults by, or the insolvency of, certain subsidiaries of the Group could result in the obligation of the Group to make payments under parent Group financial or performance guarantees in respect of such subsidiaries' obligations or the occurrence of cross defaults on certain borrowings of the Group.</p> <p>Currency risks The Bonds will be denominated and payable in USD. If bondholders holding Bonds measure their investment return by reference to a currency other than USD, an investment in the Bonds will entail foreign exchange-related risks due to, among other factors, possible significant changes in the value of the USD relative to the currency by reference to which investors measure the return on their investments. This could decrease the effective yield of the Bonds to below their stated coupon rates and could result in a loss to investors when the return on the Bonds is translated into the currency by reference to which the investors measure the return on their investments. Government and monetary authorities may impose (as some have done in the past) exchange controls that risks adversely affecting an applicable exchange rate or the ability of the Issuer to make payments in respect of the Bonds. As a result, there is a risk that investors receive less interest or principal than expected, or no interest or principal at all.</p> <p>Risks relating to the clearing and settlement in Verdipapirsentralen ASA (VPS)' book-entry system The Bonds will be issued in uncertificated and dematerialized book-entry form in the electronic register of Verdipapirsentralen ASA's account-based system, and no physical notes will be issued. Clearing and settlement relating to the Bonds is carried out within Verdipapirsentralen ASA's book-entry system as well as payment of interest and repayment of the principal. Investors are therefore dependent on the functionality of Verdipapirsentralen ASA's account-based system.</p>
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SECTION E – OFFER		
E.2b	Net proceeds and expenses	N/A. The issue of Bonds did not constitute an offer.
E.3	Terms and conditions of the offer:	N/A. The issue of Bonds did not constitute an offer.
E.4	Interests and conflicts of interest:	N/A. The issue of Bonds did not constitute an offer.
E.7	Costs for investors:	N/A. The issue of Bonds did not constitute an offer.

RISK FACTORS

Investing in the Bonds involves inherent risks. The financial performance of the Group and the risks associated with its business are important when making a decision on whether to invest in the Bonds. A number of risk factors and uncertainties may adversely affect the Issuer and the Group. These risk factors include, but are not limited to, market risks, financial risks and risks related to the business operations of the Group. If any of these risks or uncertainties were to materialise, the business, operating results and financial position of the Group could be materially and adversely affected, which ultimately could affect the Group's ability to make payments of interest and repayments of principal under the Terms and Conditions. In this section, a number of risk factors are illustrated, both general risks pertaining to the Group's business operations and material risks relating to the Bonds as financial instruments. The risks presented herein are not exhaustive, and other risks not discussed herein, not currently known or not currently considered to be material may also affect the Group's future operations, performance and financial position, and consequently the Group's ability to meet its obligations under the Terms and Conditions. Further, the risk factors are not ranked in order of importance. Potential investors should consider carefully the information contained in this section and make an independent evaluation before making an investment in the Bonds.

Group and market specific risks

Market risk

The Group is exposed to general market risk, i.e. fluctuations in market prices such as fuel prices, exchange rates, interest rates and carbon prices can materially impact the Group's profitability. The failure to control such risks will have a negative impact on the Group and consequently adversely affect the Group's earnings and financial position.

Foreign currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in currencies other than the respective functional currencies of Group entities. Historically, the biggest currency mismatch has been a USD deficit, where the annual USD cash inflow falls short of the USD outflow, mainly due to investment, maintenance, fuel costs, and funding-related payments, which are to a large extent denominated in USD. In recent years the ISK deficit has emerged and expanded from being trivial to a significant and growing ISK shortfall since 2009. This trend stems from the revenue growth in foreign markets, whilst the consequential added operations are domestic and need to be covered by ISK. This shortage is financed by a surplus of European currencies, most importantly the EUR, CAD and Scandinavian currencies. Should the Group be unsuccessful in managing its exposure to foreign currency risks, the Group's results of operations and financial position will be materially and adversely affected.

Fuel price and availability

Airline operators are highly sensitive to jet fuel prices and availability. Jet fuel has been subject to significant price volatility due to fluctuations in supply and demand and investor behaviour through speculative trading. These are influenced by factors ranging from political unrest to terrorist attacks and producer market strategies. Extreme price movements and/or restricted availability of aviation fuel may affect the profitability of the Group. The Group integrates hedging into its purchases of jet fuel. While hedging provides certain constancy in this important cost item, there are always substantial risks involved when entering into hedging transactions. If fuel prices rise, and the Group has little or no hedging in place to mitigate its effect, the Group's cost structure and its competitiveness vis-à-vis its competitors will be damaged. However, if

prices were to fall with the Group having a higher level of hedging than its rivals, its competitiveness would also be damaged. Then there is also the side effect of liquidity strain due to possible collateral payments and margin calls under such circumstances. Should any of the risks described above materialize, the Group's results of operations and financial position will be materially and adversely affected.

Carbon price risk

Since the beginning of 2012 all airlines offering European destinations have been required to comply with the EU Emissions Trading Scheme (ETS), which commits them to raise their carbon permits in proportion to their emissions of carbon. In November 2012 the EU decided to offer airlines flying to and from European destinations an exemption from the Scheme with respect to international flights. Icelandair accepted this offer and its commitment was therefore reduced to covering internal European flights.

Again, in April 2014, the EU extended this exemption to 2016 and has therefore relieved airlines temporarily from the uncertainty of the carbon exposures within this time frame. Emission permits are mainly purchased with spot and forward contracts, and carbon exposure is subject to the same scrutiny and risk management as jet fuel. The consequences of the ETS compliance are not as economically important compared to the magnitude of fuel cost volatility, but still constitute a risk for the Issuer and consequently adversely affect the Group's earnings and financial position.

Liquidity risk

The Group faces the risk of having insufficient working capital to meet payments, e.g. due to inability or difficulties in liquidating its assets. There is a risk that the Group's liquidity policy proves to be insufficient. If liquidity risks are materialized, it risks having a material adverse effect on the Group's business, results of operations, financial position and future prospects.

Credit risk

The Group is exposed to credit risk linked to the amount of outstanding trade receivables, allocation of liquid funds, security payments, and agreements with financial institutions relating to financial operations, e.g. credit support annexes concerning hedging. The relative spread of trade receivables across counterparties is also crucial for credit risk exposure. The risk involved is directly related to the fulfilment of outstanding obligations by the Group's counterparties. There is a risk that adverse changes in the credit quality of the Group's customers or other counterparties will affect the recovery and value of the Group's assets and other provisions and consequently adversely affect the Group's earnings and financial position.

A client of a subsidiary, with whom the Group has conducted business for a period lasting in excess of eight years and which currently represents less than five percent of the Group's total revenues, is late in paying its dues to the aforementioned subsidiary.

Airport access

The Group operates an international route network based on a hub and spoke concept. This makes access to the right airports in its defined geographical market vital to maintain and open up gateways to large and competitive markets. At some airports, an air carrier needs landing and take-off authorisations (slots) before being able to introduce new services or expand its existing services. If the Group is not able to secure and retain slots, it could be restrained from competing in valuable markets. Further, access to airports is vital to minimize the likelihood of

delays. Should any of the risks described above materialize, there is a risk that the Group's results of operations and financial position will be materially and adversely affected.

Competition

The Group faces intensive competition in all its fields of activities. The airline aspect of the Group's operations includes both scheduled and charter services for passengers and freight. The level of competition amongst airlines is high, and pricing decisions are heavily dependent on competition from other airlines. In general the airline industry is susceptible to fare discounting due to low marginal costs of adding passengers to otherwise empty seats. New market entrants, especially low-cost brands, mergers, acquisitions, consolidations, new partnerships and increased transparency of pricing in the air travel market add to airline competition. Should competition increase even further in any of the Group's key transport markets, including the Icelandic market, it risks having a considerable negative effect on the Group's profitability. Despite Icelandair ehf. being the most important subsidiary in the Group, the Group, in other segments of the industry, faces intense competition with hotels, B&Bs, hostels, home exchange websites and, as of late, private individuals letting their apartments. As a result, the overall accommodation capacity has substantially increased in Iceland, especially in the capital region.

Seasonality

The Group operates in a seasonal industry where there has traditionally been much higher demand for air travel and general tourism in the summer. Although strides have been made in reducing seasonality in the past years, the Group's earnings in the second and third quarters continue to be significantly higher than those of the first and fourth each year. Lower demand for air travel, flight cancellations or other factors affecting aircraft utilisation will therefore have a proportionately greater impact on the Group during the summer than during other periods.

The seasonality in turnover and profitability poses greater risk for the annual financial outcome than otherwise, leaving the Group more vulnerable against disruptions to production inputs or external demand shocks. Any interruptions during the high season risks having adverse effects on the financial outcome of operations for the whole financial year.

Volcanic eruptions

Iceland, home to the Group's Hub and Spoke base, is an active volcanic site with eruptions occurring somewhat regularly. The airline industry, in general, is vulnerable to volcanic ash clouds due to resulting disruptions of flights and cancelled bookings. In the event of an eruption, near or under the flight path of the Group's scheduled route network aircraft, resulting in disruptions or cancellations, the Group's earnings and financial position will be negatively and adversely impacted.

Labour disputes and strikes

The airline and tourism industries are inherently labour-intensive industries. The majority of the Group's employees are unionised and represented by several unions, each of which has its own agreement on salaries and benefits with the Group. Each union's contract comes up for renegotiation every few years, bringing with it a risk that the parties will not reach an immediate agreement; resulting in a strike being organised. Strikes can materially affect the Group's operations and financial results; a worst case scenario being a complete halt in the operations of one or more of its subsidiaries for a prolonged period of time. Strikes in the aviation industry are particularly taxing for airlines due to the nature of the business, which is burdened with high fixed costs. In addition to relying on hired personnel, the Group relies on third parties to provide its customers with services on behalf of and in cooperation with it. Any inability of the relevant

third parties to provide such services or the occurrence of strikes will negatively and adversely affect the Group's results of operations and financial standing.

Covenants – contractual risk

The Group is contractually bound to honour various contracts in loan and leasing agreements as well as under the terms and conditions of its outstanding debt instruments via covenants or default event conditions, e.g. through certain accounting figure minimum requirements. Should the Group become unable to fulfil the relevant covenants, or for some reason discontinue to do so, the lessors and bondholders may become entitled to rescind these agreements, which will have negative financial consequences for the Group's business, financial condition and results of operations and on the bondholders' recovery under the Bonds.

Aviation regulations

Air transportation is subject to intensive regulation. An Air Operator's Certificate (AOC) has been issued to the relevant subsidiaries of the Group authorising it to conduct its airline operations. The risk exists that the Group will not be issued such licenses in the future. Occasionally, the Federal Aviation Administration (FAA) and its European counterparts issue directives and other regulations relating to the maintenance of aircraft that may result in significant costs for the Group. There is a risk that the Group will be unable to compensate for this through higher ticket prices, thus adversely affecting the Group. Further, the Group's operating authority is subject to aviation agreements between governmental authorities of the European Union and the respective countries. Those agreements are periodically subject to renegotiation. Changes in the aviation policies of those countries could result in the termination of such agreements and adversely affect the Group's operations. Also, individual airline regulators, including the regulator in Iceland, may impose restrictions and requirements that would impact the Group's profitability and have a material and adverse effect on its business and results of operations.

Securities regulations

The Group's shares are traded on Nasdaq Iceland and therefore subject to Icelandic securities regulations, e.g. those in the Securities Transactions Act No. 108/2007, government regulations and rules adopted by Nasdaq Iceland. Violation, whether intended or unintentional, of these provisions risks having a financial impact on the Group. Serious breaches may result in penalties and Nasdaq Iceland halting trading in the Group's securities, and will consequently adversely affect the Group's reputation and financial position.

Litigation

Given the Issuer's size and the scope of its operations, it can easily find itself involved in some form of litigation at any given time which risks adversely affecting its financial position. At the time of the publishing of this Presentation, the Issuer is involved in disputes with the tax and competition authorities.

The Icelandic Competition Authority (ICA) has recently been investigating Icelandair's alleged predatory pricing in 2012-13 which could be considered as a breach of Article 11 of the Icelandic Competition Act. If the investigation will conclude that Icelandair had a dominant position in the market, and abused its position by predatory pricing, the ICA could lay an administrative fine on Icelandair for the alleged breach of the Competition Act. Should the ICA's ruling be unfavorable to the Issuer, there is a risk that it causes negative effects on the Group's financial standing and market position.

Reassessment of taxes

On 15 April 2015 the Internal Revenue Board issued a ruling where a decision made by the Director of Internal Revenue was confirmed. The ruling disallows the Group to recognize as expenses for tax purposes certain interest expenses on loans that were transferred to the Group as a result of a reverse acquisition in 2006. The management does not agree with the ruling and an appeal to the District Court of Reykjavik is in process. The effect of the ruling has not been recognized in the financial statements, but if the court case will be lost the Group's equity would be reduced by USD 7.9 million, thus negatively affecting the Group's financial position.

Risks relating to the Bonds

Credit risks

Investors in the Bonds carry a credit risk relating to the Group. The investors' ability to receive payment under the Terms and Conditions is dependent on the Issuer's ability to meet its payment obligations, which in turn is largely dependent upon the performance of the Group's operations and its financial position. The Group's financial position is affected by several factors of which some will be mentioned on the proceeding pages. An increased credit risk may cause the market to charge the Bonds a higher risk premium, and that will affect the Bonds' value negatively. Another aspect of the credit risk is that a deteriorating financial position of the Group risks reducing the Group's possibility to receive debt financing at the time of the maturity of the Bonds.

Refinancing risk

The Group may eventually be required to refinance certain or all of its outstanding debt, including the Bonds. The Group's ability to successfully refinance its debt is dependent on the conditions of the capital markets and its financial condition at such time. The Group's access to financing sources may not be available on favourable terms, or at all. The Group's inability to refinance its debt obligations on favourable terms, or at all, risks having a material adverse effect on the Group's business, financial condition and results of operations and on the bondholders' recovery under the Bonds.

Ability to comply with the Terms and Conditions

The Group is required to comply with the Terms and Conditions, inter alia, to pay interest under the Bonds. Events beyond the Group's control, including changes in the economic and business conditions in which the Group operates, may affect the Group's ability to comply with, among other things, the undertakings set out in the Terms and Conditions. There is a risk that a breach of the Terms and Conditions could result in a default under the Terms and Conditions, which could lead to an acceleration of the Bonds, resulting in the Issuer having to repay the bondholders at the applicable call premium. It is possible that the Issuer will not have sufficient funds at the time of the repayment to make the required redemption of Bonds.

Interest rate risks

The Bonds' value depends on several factors, one of the most significant over time being the level of market interest. Investments in the Bonds involve a risk that the market value of the Bonds will be adversely affected by changes in market interest rates.

Liquidity risks and secondary market

The Issuer intends to list the Bonds on the corporate bond list of Nasdaq Stockholm within 30 calendar days from the Issue Date, and an obligation to list the Bonds on the corporate bond list of Nasdaq Stockholm no later than 60 calendar days from the Issue Date. Even if the Bonds are

admitted to trading on the aforementioned market, active trading in the Bonds does not always occur and a liquid market for trading in the Bonds might not occur even if the Bonds are listed. There is a risk that this will result in the bondholders not being able to sell their Bonds when desired or at a price level which allows for a profit comparable to similar investments with an active and functioning secondary market. Lack of liquidity in the market will have a negative impact on the market value of the Bonds. Furthermore, there is a risk that the nominal value of the Bonds will not be indicative compared to the market price of the Bonds if the Bonds are admitted to trading on Nasdaq Stockholm. It should also be noted that during any given period of time there is a risk that it will be difficult or impossible to sell the Bonds (at all or at reasonable terms) due to, for example, severe price fluctuations, close down of the relevant market or trade restrictions imposed on the market.

The market price of the Bonds may be volatile

The market price of the Bonds will be subject to significant fluctuations in response to actual or anticipated variations in the Group's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Bonds, as well as other factors. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, will adversely affect the market price of the Bonds without regard to the Group's operating results, financial condition or prospects.

Dependency on other companies within the Group

A significant part of the Group's assets and revenues relate to the Issuer's subsidiaries. The Issuer is thus dependent upon receipt of sufficient income and cash flow related to the operations of the subsidiaries. Consequently, the Issuer is dependent on the subsidiaries' availability of cash and their legal ability to make dividends which will from time to time be restricted by corporate restrictions and law. Should the Issuer not receive sufficient income from its subsidiaries, the investor's ability to receive payment under the Terms and Conditions will be adversely affected.

Majority owner

Following any potential change of control in the Issuer, the Issuer may be controlled by a majority shareholder whose interest may conflict with those of the bondholders, particularly if the Group encounters difficulties or is unable to pay its debts as they fall due. A majority shareholder has legal power to control many of the matters to be decided by vote at a shareholder's meeting. For example, a majority shareholder will have the ability to elect the Board of Directors of the Issuer. Furthermore, a majority shareholder may also have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments but might involve risks to the bondholders. There is nothing that prevents a shareholder or any of its affiliates from acquiring businesses that directly compete with the Group. If such an event were to arise, it risks having a material negative impact on the Group's operations, earnings and financial position. According to the Terms and Conditions, if a change of control event occurs, the bondholders have a right of prepayment of the Bonds (put option). There is a risk that the Issuer lacks liquidity to repurchase the Bonds if the bondholders were to exercise their right of prepayment. Please see the risk factor "Early redemption and put option" on the following page for further information.

Risks relating to the Bonds being unsecured

The Bonds constitute unsecured debt obligations of the Issuer. If the Issuer is subject to any foreclosure, dissolution, winding-up, liquidation, recapitalisation, administrative or other bankruptcy or insolvency proceedings, all of the Issuer's secured obligations must first be satisfied, potentially leaving little or no remaining assets in the Issuer for the bondholders. As a result, there is a risk that the bondholders will not recover any or full value. The bondholders will only have an unsecured claim against the assets (if any) in the Issuer for the amounts under or in respect of the Bonds, which means that the bondholders normally would receive payment (pro rata with other unsecured non-priority creditors) after any priority creditors have been paid in full. Each investor should be aware that by investing in the Bonds, they risk losing the entire, or part of, its investment in the event of the Issuer's liquidation, bankruptcy or Group re-organisation. Further, the Issuer currently has outstanding secured debt. Consequently, an enforcement of security furnished under the secured obligations risks having a material negative effect on the bondholders' recovery under the Bonds.

Subsidiaries, structural subordination and insolvency of subsidiaries

A significant part of the Group's assets and revenues relate to the Issuer's subsidiaries. The subsidiaries are legally separated from the Issuer and the subsidiaries' ability to make payments to the Issuer is restricted by, among other things, the availability of funds, corporate restrictions and law. Furthermore, in the event of insolvency, liquidation or a similar event relating to one of the subsidiaries, all creditors of such subsidiary would be entitled to payment in full out of the assets of such subsidiary before any entity within the Group, as a shareholder, would be entitled to any payments. Thus, the Bonds are structurally subordinated to the liabilities of the subsidiaries. There is a risk that the Group and its assets will not be protected from any actions by the creditors of any subsidiary of the Group, whether under bankruptcy law, by contract or otherwise. In addition, defaults by, or the insolvency of, certain subsidiaries of the Group could result in the obligation of the Group to make payments under parent Group financial or performance guarantees in respect of such subsidiaries' obligations or the occurrence of cross defaults on certain borrowings of the Group.

Security over assets granted to third parties

The Group may, subject to limitations, incur additional financial indebtedness and provide additional security for such indebtedness. In the event of bankruptcy, reorganisation or winding-up of the Issuer, the bondholders will be subordinated in right of payment out of the assets being subject to security. In addition, if any such third party financier holding security provided by the Group would enforce such security due to a default by any Group company under the relevant finance documents, such enforcement will have a material adverse effect on the Group's assets, operations and ultimately the position of the bondholders.

Currency risks

The Bonds will be denominated and payable in USD. If bondholders holding Bonds measure their investment return by reference to a currency other than USD, an investment in the Bonds will entail foreign exchange-related risks due to, among other factors, possible significant changes in the value of the USD relative to the currency by reference to which investors measure the return on their investments. This could decrease the effective yield of the Bonds to below their stated coupon rates and could result in a loss to investors when the return on the Bonds is translated into the currency by reference to which the investors measure the return on their investments. Government and monetary authorities may impose (as some have done in the past) exchange controls that risks adversely affecting an applicable exchange rate or the ability

of the Issuer to make payments in respect of the Bonds. As a result, there is a risk that investors receive less interest or principal than expected, or no interest or principal at all.

Early redemption and put options

Under the Terms and Conditions, and as described in the term sheet for the Bonds, the Issuer has reserved the possibility to redeem all outstanding Bonds before the final redemption date. If the Bonds are redeemed before the final redemption date, the holders of the Bonds have the right to receive an early redemption amount which exceeds the nominal amount in accordance with the Terms and Conditions. However, there is a risk that the market value of the Bonds is higher than the early redemption amount and that it will not be possible for bondholders to reinvest such proceeds at an effective interest rate as high as the interest rate on the Bonds and will only be able to do so at a significantly lower rate. According to the Terms and Conditions, the Bonds are subject to prepayment at the option of each bondholder (put options) if (i) the Issuer's shares are not listed and admitted to trading on Nasdaq Stockholm or any other regulated market, (ii) trading of the Issuer's shares on the aforementioned stock exchange is suspended for a period of 15 consecutive banking days, or (iii) if one or more persons, acting together acquire control over the Issuer and where "control" means (a) acquiring or controlling, directly or indirectly, more than 50.00 per cent of the voting rights of the Issuer, or (b) the right to, directly or indirectly, appoint or remove the whole or a majority of the directors of the Board of Directors of the Issuer.

There is, however, a risk that the Issuer will not have sufficient funds at the time of such prepayment to make the required prepayment of the Bonds which will adversely affect the Issuer, e.g. by causing insolvency or an event of default under the Terms and Conditions, and thus adversely affect all bondholders and not only those that choose to exercise the option.

No action against the Issuer and bondholders' representation

In accordance with the Terms and Conditions, a bondholders' agent (the "Agent") (being on the Issue Date Nordic Trustee & Agency AB (publ)) will represent all bondholders in all matters relating to the Bonds and the bondholders are prevented from taking actions on their own against the Issuer. Consequently, individual bondholders do not have the right to take legal actions to declare any default by claiming any payment from or enforcing any security granted by the Issuer and will therefore lack effective remedies unless and until a requisite majority of the bondholders agree to take such action. However, there is a risk that an individual bondholder, in certain situations, will bring its own action against the Issuer (in breach of the Terms and Conditions) which will negatively impact an acceleration of the Bonds or other action against the Issuer. To enable the Agent to represent bondholders in court, the bondholders and/or their nominees may have to submit a written power of attorney for legal proceedings. The failure of all bondholders to submit such a power of attorney will negatively affect the legal proceedings. Under the Terms and Conditions, the Agent will in some cases have the right to make decisions and take measures that bind all bondholders. Consequently, the actions of the Agent in such matters could impact a bondholder's rights under the Terms and Conditions in a manner that would be undesirable for some of the bondholders.

Bondholders' meetings

The Terms and Conditions include certain provisions regarding bondholders' meetings. Such meetings may be held in order to resolve on matters relating to the bondholders' interests. The Terms and Conditions will allow for stated majorities to bind all bondholders, including bondholders who have not taken part in the meeting and those who have voted differently to the required majority at a duly convened and conducted bondholders' meeting. Consequently,

the actions of the majority in such matters could impact a bondholder's rights in a manner that will be undesirable for some of the bondholders.

Restrictions on the transferability of the Bonds

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended, or any U.S. state securities laws. Subject to certain exemptions, a holder of the Bonds may not offer or sell the Bonds in the United States. The Issuer has not undertaken to register the Bonds under the U.S. Securities Act or any U.S. state securities laws or to effect any exchange offer for the Bonds in the future. Furthermore, the Issuer has not registered the Bonds under any other country's securities laws. It is each potential investor's obligation to ensure that the offers and sales of Bonds comply with all applicable securities laws. Due to these restrictions, there is a risk that a bondholder cannot sell their Bonds as desired.

Risks relating to the clearing and settlement in Verdipapirsentralen ASA (VPS)' book-entry system

The Bonds will be issued in uncertificated and dematerialized book-entry form in the electronic register of Verdipapirsentralen ASA's account-based system, and no physical notes will be issued. Clearing and settlement relating to the Bonds is carried out within Verdipapirsentralen ASA's book-entry system as well as payment of interest and repayment of the principal. Investors are therefore dependent on the functionality of Verdipapirsentralen ASA's account-based system.

Amended or new legislation

This document is and the Terms and Conditions will be based on Swedish law in force at the date of issuance of the Bonds. There is a risk that amended or new legislation and administrative practices will adversely affect the investor's ability to receive payment under the Terms and Conditions.

Conflict of interests

The Sole Bookrunner may in the future engage in investment banking and/or commercial banking or other services for the Group in the ordinary course of business. Accordingly, there is a risk that conflicts of interest may exist or arise as a result of the Sole Bookrunner having previously engaged, or engaging in the future, in transactions with other parties, having multiple roles or carrying out other transactions for third parties with conflicting interests.

The rights of bondholders depend on the Agent's actions and financial standing

By subscribing for, or purchasing, or accepting the assignment of, any Bond, each holder of a Bond will accept the appointment of the Agent to act on its behalf and to perform administrative functions relating to the Bonds. The Agent shall have, among other things, the right to represent the holders of the Bonds in all court and administrative proceedings in respect of the Bonds. However, the rights, duties and obligations of the Agent as the representative of the holders of the Bonds will be subject to the provisions of the Terms and Conditions for the Bonds and the agency agreement, and there is no specific legislation or market practice in Sweden (under which laws the Terms and Conditions for the Bonds are governed) which would govern the Agent's performance of its duties and obligations relating to the Bonds. A failure by the Agent to perform its duties and obligations properly or at all will adversely affect the enforcement of the rights of the holders of the Bonds. Under the Terms and Conditions for the Bonds, the funds collected by the Agent as the representative of the holders of the Bonds must be held separately from the funds of the Agent and be treated as escrow funds to ensure that in the event of the

Agent's bankruptcy, such funds can be separated for the benefit of the holders of the Bonds. However, there is a risk that such segregation of funds will not be respected by a bankruptcy administrator in case of the trustee's bankruptcy. Also, in the event the Agent would fail to separate the funds in an appropriate manner, there is a risk that the funds will be included in the Agent's bankruptcy estate. The Agent may be replaced by a successor bondholders' agent in accordance with the Terms and Conditions for the Bonds.

THE BONDS IN BRIEF

The following summary contains basic information about the Bonds. It is not intended to be complete and it is subject to important limitations and exceptions. Potential investors should therefore carefully consider this Prospectus as a whole, including documents incorporated by reference, before a decision is made to invest in the Bonds. For a more complete understanding of the Bonds, including certain definitions of terms used in this summary, see the Terms and Conditions.

Issuer	Icelandair Group hf.
The aggregate amount of the bonds	The aggregate amount of senior unsecured floating rate bonds due 2021 is up to a maximum of USD 300,000,000. The Issuer may choose not to issue the full amount of the Bonds on the First Issue Date and may issue the remaining amount of Bonds at one or more subsequent dates. As of the date of this Prospectus, Bonds have been issued in an initial amount of USD 150,000,000.
Minimum Investment Amount:	USD 150,000.
Number of Bonds	Maximum 300,000,000.
ISIN	NO0010776982.
First Issue Date	26 October 2016.
Issue Price	100 per cent.
Interest Rates	Interest on the Bonds will be paid at a floating rate of three-month LIBOR plus 3.50 per cent. <i>per annum</i> .
Interest Payment Dates	26 January, 26 April, 26 July and 26 October of each year commencing on 26 January 2017. Interest will accrue from and including the Issue Date.
Nominal Amount	The Bonds will have a nominal amount of USD 1.00. The minimum permissible investment in the Bonds is USD 150,000.
Status of the Bonds	The Bonds are denominated in USD and each Bond is constituted by the Terms and Conditions. The Issuer undertakes to make payments in relation to the Bonds and to comply with the Terms and Conditions.

The Bonds constitute direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer, and:

- will at all times rank *pari passu* with all direct, unconditional, unsubordinated and unsecured obligations of the Issuer without any preference among them, except those obligations which are mandatorily preferred by law;
- are effectively subordinated to any existing or future indebtedness or obligation of the Issuer and its subsidiaries that is secured by property and assets that do not secure the Bonds, to the extent of the value of the property and assets securing such indebtedness; and
- are structurally subordinated to any existing or future indebtedness of the subsidiaries of the Issuer, including obligations to trade creditors.

Call Option The Issuer has the right to redeem outstanding Bonds in full at any time at the applicable Call Option Amount in accordance with Clause 10.3 (*Voluntary Total Redemption*) of the Terms and Conditions.

Voluntary Partial Redemption The Issuer may on one occasion during each 12 month period commencing 12 months after the First Issue Date repay up to 10.00% of the Total Nominal Amount, in which case all outstanding Bonds shall be partially repaid by way of reducing the Outstanding Nominal Amount of each Bond pro rata in accordance with Clause 10.4 (*Voluntary Partial Redemption*) of the Terms and Conditions

Call Option Amount Means 100.22% of the Outstanding Nominal Amount, together with accrued but unpaid interest, if the Call Option is exercised on or after the date falling 48 months after the Issue Date to, but not including, the Final Maturity Date.

Make Whole Amount From the Issue Date to, but not including, the First Call Date at a price equivalent to the sum of:

- (a) the present value on the relevant record date of 100.22% of the Outstanding Nominal Amount as if such payment originally should have taken place on the First Call Date; and
- (b) the present value on the relevant record date of the remaining coupon payments (assuming that

the interest rate for the period from the relevant redemption date to the First Call Date will be equal to the interpolated USD mid-swap rate for the remaining term from the redemption date until the First Call Date plus the Floating Rate Margin), less any accrued but unpaid interest, through and including the First Call Date,

each calculated by using a discount rate of 50 basis points over the comparable US government bond rate (i.e. comparable to the remaining duration of the Bonds until the First Call Date) and where "relevant record date" shall mean a date agreed upon between the Trustee, the CSD and the Issuer in connection with such repayment.

First Call Date..... Means the date falling 48 months after the First Issue Date.

Final Maturity Date Means 26 October 2021.

Change of Control Event.... means the occurrence of an event or series of events whereby one or more persons acting together acquire control over the Issuer and where "control" means:

- a) acquiring or controlling, directly or indirectly, more than 50 per cent. of the voting shares of the Issuer, or
- b) the right to, directly or indirectly, appoint or remove the whole or a majority of the directors of the board of directors of the Issuer.

Certain Covenants The Terms and Conditions contain a number of covenants which restrict the ability of the Issuer and other Group Companies, including, *inter alia*:

- restrictions on making any changes to the nature of their business;
- a negative pledge, restricting the granting of security on Financial Indebtedness (as defined in the Terms and Conditions);
- restrictions on the incurrence of Financial Indebtedness (as defined in the Terms and Conditions); and

- limitations on the making of distributions and disposal of assets.

The Terms and Conditions contains a maintenance test pursuant to which the following financial covenants shall be met:

The Issuer shall at all times procure that for each Reference Period, the financial covenants specified below are met:

- (a) the ratio of Equity to Total Assets shall not be lower than 25%;
- (b) the ratio of Interest Bearing Debt to EBITDA for the Reference Period shall not exceed 3.5x;
- (c) the ratio of Interest Bearing Debt and liabilities relating to aircraft lease to EBITDAR for the Reference Period shall not exceed 4.0x;
- (d) Cash and Cash Equivalents shall cover all Finance Charges falling due in the next six months thereafter; and
- (e) Issuer's Cash must never be less than USD 50,000,000.

The Maintenance Test shall be reported quarterly on the basis of the Financial Report for the period covered by the relevant Reference Date on the basis of the Compliance Certificate delivered in connection therewith.

Each of these covenants is subject to significant exceptions and qualifications, see the Terms and Conditions.

Use of Proceeds	The Net Proceeds from the issue of the Initial Bonds shall be applied towards the financing of the Aircraft Downpayment and for general corporate purposes. The proceeds from an issue of Subsequent Bonds shall <i>inter alia</i> be applied towards the financing of general corporate purposes.
Transfer Restrictions	The Bonds are subject to a number of transfer restrictions in accordance with Clause 5 (<i>Transfer Restrictions</i>) of the Terms and Conditions.
Listing	Application has been made to list the Bonds on Nasdaq Stockholm.
Agent	Nordic Trustee & Agency AB (publ), Swedish Reg. No. 556882-1879, or another party replacing it, as Agent, in accordance with the Terms and Conditions.

Paying Agent	DNB Bank ASA.
Investor base	The Bonds have been offered to professional and institutional investors with a minimum investment amount of USD 150,000.
Governing Law of the Bonds	Swedish law.
Risk Factors	Investing in the Bonds involves substantial risks and prospective investors should refer to the section " <i>Risk Factors</i> " for a description of certain factors that they should carefully consider before deciding to invest in the Bonds.

STATEMENT OF RESPONSIBILITY

The issuance of the Bonds was authorised by resolutions taken by the board of directors of the Issuer on 5 October 2016, and was subsequently issued by the Issuer on 26 October 2016. This Prospectus has been prepared in connection with the Issuer's application to list the Bonds on the corporate bond list of Nasdaq Stockholm, in accordance with the Commission Regulation (EC) No. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC as amended by the Directive 2010/73/EC of the European Parliament and of the Council and Chapter 2 of the Trading Act.

The Issuer is responsible for the information given in this Prospectus. The Issuer is the source of all company specific data contained in this Prospectus and the Sole Bookrunner has conducted no efforts to confirm or verify the information supplied by the Issuer. The Issuer confirms that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of the Issuer's knowledge, in accordance with the facts and contains no omissions likely to affect its import. Any information in this Prospectus and in the documents incorporated by reference which derive from third parties has, as far as the Issuer is aware and can be judged on the basis of other information made public by that third party, been correctly represented and no information has been omitted which may serve to render the information misleading or incorrect. The board of directors confirms that, having taken all reasonable care to ensure that such is the case, the information in this Prospectus is, to the best of the board of directors' knowledge, in accordance with the facts and contains no omission likely to affect its import.

21 December 2016

Icelandair Group hf.

The board of directors

DESCRIPTION OF THE GROUP

History and development

The Company was incorporated on 20 December 2005 and is an Icelandic public limited liability company operating under the laws of Iceland with ID No. 631205-1780.

The registered office of the Company is Reykjavík Airport, 101 Reykjavík Iceland and the Company's headquarters is located the same address, with telephone number +354 50 50 300.

In accordance with the articles of association of the Company, on the latest version of which was adopted on 10 March 2016, the objects of the Company are to own and run airlines and tourism companies, purchase and sale of shares, especially shares in other companies working in the field of aviation, travel industry and transport, purchase and sale of real estate, lending and other related business.

The Group traces its roots to the year 1937 when one of its predecessors, Flugfélag Akureyrar, was founded. In 1943, the company moved its headquarters to Reykjavík and changed its name to Flugfélag Íslands, which later assumed the international trade name Icelandair.

Another important milestone was passed in 1944, when three young Icelandic pilots, returning from flight training in Canada, founded Loftleiðir, which later became known as Icelandic Airlines. Initially, both companies concentrated on Icelandic domestic air services. However, in 1945 Icelandair made its first international flight to Scotland and Denmark. Loftleiðir Icelandic Airlines began international operations in 1947, and its pioneering low-fare services across the North-Atlantic commenced in 1953.

In 1973, the two airlines, Icelandair and Loftleiðir Icelandic Airlines, were merged under a new holding company, Flugleiðir. In October 1979, Flugleiðir assumed all the operating responsibilities of its two parent companies, and decided to use Icelandair as its international trade name, only retaining the Flugleiðir name in the domestic market.

Although Icelandair Group's formal founding date is 20 December 2005, the Group, in its current day form, is the result of a series of acquisitions, mergers, de-mergers, in- and divestments and comprehensive restructuring spanning the three decades, from 1979 - 2010. The Group's shares have been traded on the Nasdaq Iceland since 12 February 2007.

In 2012, the Group celebrated 75 years of successful operations in scheduled flight services making the name Icelandair one of the longest serving airline names in the world.

Business and operations

The Group operates in the international airline and tourism sectors, with Iceland as the focal point of its international Route Network. In addition to the passenger flights operated by Icelandair, the Group has extensive interests in most other parts of Icelandic tourism and aviation, including hotel chains, travel agencies, domestic airline and cargo, support services and ground handling and technical services, in addition to its leasing and charter operations. The Company splits its operations into two business segments: Route Network and Tourism Services.

The Group's long-term strategy remains firmly centred on five key points:

- Focus on the Route Network and tourism services;
- Focus on reducing seasonality in the Group's operations;
- Focusing on organic growth and business development;
- Focus on achieving greater synergies between Group companies; and
- Focus on improving efficiency with special emphasis on continuous cost control.

The Group's vision

To unlock Iceland's potential as a year-round destination, to strengthen Iceland's position as a connecting hub and to maintain our focus on flexibility and experience

Business Segments: Route Network

This business segment is focused on the well-established international route networks based on the Hub and Spoke concept. Seven companies are categorised as being part of the Route Network business segment:

- Icelandair, international, full-service airline with a hub in Iceland;
- Icelandair Cargo, full-service air freight company;
- Icelandair Ground Services, handling agent for airlines and passenger services at Keflavik International Airport;
- Air Iceland, regional airline operator;
- Loftleidir-Icelandic, aircraft leasing operation;
- Feria, parent company of travel agencies VITA and Ferð.is; and
- Icelandair Shared Services (Fjárvakur-fjármálathjónusta), the accounting and financial support company of the Group.

These companies work closely together and have long historical ties. The main common task of the focus group is to run a profitable airline network operation with growth potential while supporting local tourism in Iceland. This is done through sales and marketing activity on behalf of all companies, as well as through placing emphasis on revenue management and cost control throughout the operation.

The Issuer is relied on the successful operations of the entities within the Group, with Icelandair being the largest and most important subsidiary responsible for over 2/3 of Group operating income in 2014.

Icelandair

Icelandair, an international airline (the "Airline"), is the Group's largest subsidiary and a key factor in the Group's operations. The Airline's operating result is the largest determining factor in the Group's overall results. The Airline's CEO is Birkir Hólm Guðnason. The Airline's business strategy is based on the geographical position of Iceland on the flight route between northern Europe and North America. By combining in its aircraft, passengers visiting Iceland, passengers departing from Iceland and passengers travelling across the Atlantic via Iceland, the Airline has been able to expand its network steadily. In 2016 Icelandair connects 26 European cities to 16 North American cities through the hub in Iceland in its summer schedule. The network is based on a 24-hour rotation with morning and afternoon connections in Iceland.

Icelandair Cargo

Icelandair Cargo bases its business on air-freight services to and from Iceland by leveraging Icelandair's passenger routes, combined with scheduled air cargo flights to and from North America and Europe. Icelandair Cargo has two Boeing 757-200 freighters in its fleet. Icelandair Cargo offers direct services to 50 destinations in Europe and N-America and to 4 domestic destinations with its own cargo aircraft as well as the Airline's passenger aircraft. The freighters are placed on the Icelandair's Air Operators Certificate (AOC) and crews are leased from the Icelandair.

Icelandair Cargo is the largest air freight service provider in Iceland.

Icelandair Ground Services

Icelandair Ground Services ("IGS") provides comprehensive airport ground handling services for airlines and passengers at Keflavík International Airport. IGS is a service provider enabling airlines and other customers to obtain all services required through one service provider. In addition to offering aircraft ground handling services for all types of aircraft, IGS operates a first-class flight kitchen and bonded stores and a cargo centre at Keflavík International Airport. All these units are organised and settled as profit-making units. The Managing Director of IGS is Gunnar S. Olsen.

Air Iceland (Flugfélag Íslands)

Air Iceland operates a domestic flight schedule in Iceland and the West Nordic countries. Co-operation with other airlines enables interregional connections, both domestically in Iceland and to Greenland and the Faroe Islands. Air Iceland offers domestic flights to 3 destinations in Iceland from Reykjavík, Akureyri, Egilsstaðir and Ísafjörður and to five destinations in Greenland; Kulusuk, Nuuk, Ilulissat, Narsarsuaq and Kangerlussuaq.

Loftleiðir-Icelandic

Loftleiðir-Icelandic is a capacity solution provider for the international passenger airlines and tour operator industries. The company operates AM (Aircraft and Maintenance) ACMI (aircraft, crew, maintenance and insurance) and full charter contracts in Europe, Oceania and America. Furthermore, Loftleiðir-Icelandic has established itself as a business class operator serving one of the most prestigious operators in the USA, A&K (Abercrombie & Kent), by operating first-class flights around the world on which all seats are business class.

Feria

FERIA operates VITA travel which offers Icelanders travelling abroad a variety of leisure tours, taking advantage of opportunities that arise through the company's partnership with the Airline. VITA offers a secure and attractive option for Icelanders seeking services and assistance for organised groups and individual tours, such as vacation tours, golf and ski trips and city breaks.

Icelandair Shared Services (Fjárvakur)

Icelandair Shared Services has three business units. Financial Services provides services such as general accounting, debt collection, payments of supplier invoices, management information and reporting including systems for customers in Iceland. Human Resource Services provides payroll and HR services for customers in Iceland. Revenue Accounting Services provides services such as sales accounting, other airline accounting, revenue uplift, ticket refunds and sales audits for airlines, both in Iceland and abroad. Majority of the Icelandair Shared Services revenues comes from Group companies.

Business Segments: Tourism Services

The business segment Tourism Services comprises the following subsidiaries:

- Icelandair Hotels, the domestic hotel chain; and
- Iceland Travel, a travel agency, tour operator and destination management company in Iceland.

The focus of this business segment is on catering to the growing demand for universal services to tourists in Iceland and on offering a wide variety of support services relating to airline operations.

Icelandair Hotels

Icelandair Hotels provide hospitality services through a cohesive mix of international and local brands. An extensive portfolio of four hotels brands are set in the capital of Iceland and across the country; Icelandair Hotels, Hilton Reykjavik Nordica, Canopy by Hilton and Hotel Edda. In addition, an agreement has been reached with the Hilton Hotel chain on the operation of two high-quality hotels in central Reykjavik under the brand Curio Collection. The hotels will open in 2017 and 2018. . All the Icelandair Hotels, as well as the Hilton Reykjavik Nordica are open year-round while Edda is a chain of summer hotels, many of which utilise buildings that serve as boarding schools during the winter months.

Iceland Travel

Iceland Travel produces, markets, distributes and sells package tours to foreign tourists in Iceland. It specialises in advanced services and working with almost all licensed vendors operating in the tourist industry in Iceland, from car rentals to hotels and accommodation providers, professional guides, etc. Iceland Travel organises various vacation packages, scheduled tours, day tours and activities, as well as planning MICE (Meetings -Incentives - Conferences -Events).

Market overview

Air travel passenger growth has historically tracked GDP growth closely, however at a multiple in excess of 2x. Long-term forecasts point to a continuation of this trend, with global airline traffic expected to grow at nearly 5 per cent p.a. over the period 2015-2034. In the long run, air travel has shown strong resilience to demand-side shocks such as the Gulf Wars, 9/11 attacks, SARS or the global financial crisis.

Following a steep downturn in the wake of the global financial crisis, the Iceland economy has recovered strongly in recent years. GDP grew solidly in excess of the world average in 2015, with outperformance expected to continue over the coming years due to growth in imports and exports, fuelled in particular by the tourist industry. The inflation has stabilised.

Following the financial crisis, tourist arrivals to Iceland fell in 2009 and 2010 but recent years have seen a remarkable turnaround in this statistic. The number of tourist arrivals to Iceland reached nearly 1.3 million in 2015, representing growth of more than 30 per cent over 2014 and a more than two-fold increase over 2011 and approximately 98 per cent of tourist arrivals are through Keflavik. Revenues from tourism to Iceland more than doubled between 2010 and 2015, from USD 1.4 billion to USD 3.2 billion.

Source for the above: IATA, Airbus; Boeing, Statistics Iceland and the Icelandic Tourist Board.

Share capital and ownership structure

The shares of the Company are denominated in ISK. Each share carries one vote and has equal rights on distribution of income and capital. As of the date of this Prospectus, the Company had an issued share capital of ISK 5,000,000,000 divided into 5,000,000,000 of shares, of which the Company owns 25 million.

The following table sets forth the ownership structure in the Company as per the date of this Prospectus.

<i>Shareholder</i>	<i>No. of shares</i>	<i>Share Capital</i>	<i>Voting rights</i>
Lífeyrissjóður verslunarmanna	734,361,239	14.69%	14.69%
Stefnir-ÍS15	476,625,929	9.53%	9.53%
Gildi-lífeyrissjóður	348,372,301	6.97%	6.97%
Lífeyrissj. starfsm. rík. A-deild	341,600,000	6.83%	6.83%
Stefnir-ÍS5	244,837,069	4.90%	4.90%
Stafir lífeyrissjóður	183,552,761	3.67%	3.67%
Landsbréf-Úrvalsbréf	179,356,747	3.59%	3.59%
Stapi lífeyrissjóður	171,153,864	3.42%	3.42%
Sameinaði lífeyrissjóðurinn	144,344,953	2.89%	2.89%
Lífeyrissj. starfsm. rík. B-deild	124,440,000	2.49%	2.49%
Brú Lífeyrissjóður starfssveit	120,167,806	2.40%	2.40%
Söfnunarsjóður lífeyrisréttinda	102,105,886	2.04%	2.04%
Landsbréf Öndvegisbréf	88,602,744	1.77%	1.77%
Íslandsbanki hf.	88,096,853	1.76%	1.76%
Virðing safnreikningur	79,508,566	1.59%	1.59%
Almenni lífeyrissjóðurinn	75,868,506	1.52%	1.52%
IS Hlutabréfasjóðurinn	69,903,144	1.40%	1.40%
Festa-lífeyrissjóður	68,403,951	1.37%	1.37%
A.C.S safnreikningur	63,452,333	1.27%	1.27%
Global Macro Portfolio	49,647,942	0.99%	0.99%
Management	2,400,000	0.05%	0.05%
Other Shareholders	1,243,197,406	24.86%	24.35%
Total	5,000,000,000	100.00%	99.49%

The three largest shareholders in the Company are Lífeyrissjóður verslunarmanna, Stefnir – ÍS 15 and Gildi lífeyrissjóður with a total of 31.19% of shares.

The ten largest shareholders hold 59.0% of the shares. None of them are considered related parties.

The remaining 41.0% of shares are disbursed among 2.603 shareholders.
Management shareholders – 0.05 per cent.

Management shareholders include the following members of the Company's management:

- Björgólfur Jóhannsson, President and CEO, 1,400,000 shares
- Bogi Nils Bogason, CFO, 1,000,000 shares

Other shareholders – 24.86 per cent.

Other shareholders include the following members of the Company's board of directors:

- Sigurður Helgason, Chairman of the Board

Shareholders' agreements

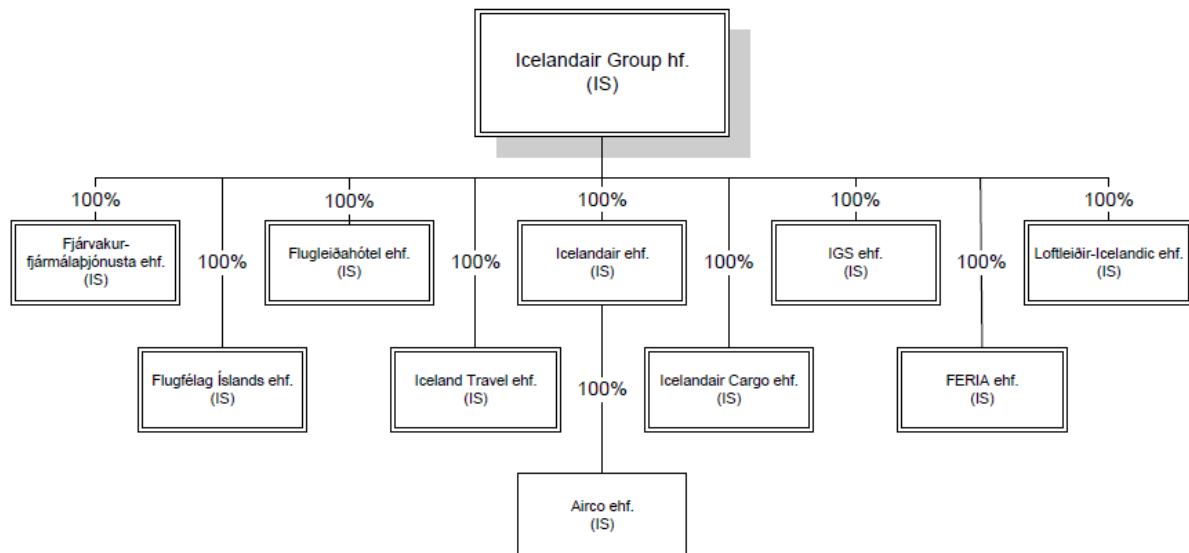
The Issuer is not aware of the details of any provision in the arrangement between its shareholders, the operation of which may at a subsequent date result in a change in control of the Issuer.

Overview of Group structure

Currently, the Issuer has, directly and indirectly, 10 wholly-owned operational subsidiaries.

Operations are conducted by the subsidiaries and the Issuer is thus dependent on its subsidiaries to generate revenues and profit in order to be able to fulfil its payment obligations under the Bonds.

The structure of the Group, including its subsidiaries, is set out below. Unless specified in the overview below, all subsidiaries are owned to 100%.



Recent events

There has been no recent event particular to the Group which is to a material extent relevant to the evaluation of the Issuer's solvency.

Significant change and trend information

There has been no material adverse change in the prospects of the Group since the date of publication of its last audited annual accounts and no significant change in the financial or trading position of the Group since the end of the last financial period for which interim financial information has been published.

Legal and arbitration proceedings

Neither the Issuer nor the Group is, or has been over the past twelve months been, a party to any legal, governmental or arbitration proceedings in addition to any mentioned in the latest annual accounts that have had, or would have, a significant effect on the Group's financial position or profitability. Nor is the Issuer aware of any such proceedings in addition to any mentioned in the latest annual accounts which are pending or threatening and which could lead to the Issuer or any member of the Group becoming a party to such proceedings.

Credit rating

No credit rating has been assigned to the Issuer, or its debt securities.

MANAGEMENT

The Group's Board of Directors consists of five members, each of whom is elected at the Annual General Meeting for a term of one year. The Board of Directors of the Company has supreme authority in the Company's general affairs between Shareholders Meetings. The Company's Board of Directors directs company affairs and sets its objective and future vision, dealing with the annual budget and Company's goals presented by the CEO and the strategy to be taken to reach them.

Board of directors

Sigurður Helgason, chairman of the board, member of the board since 2009.

Education: Cand. Oecon degree from the University of Iceland. MBA from the University of North Carolina, Chapel Hill.

Current commitments: Retired former CEO of Icelandair.

Úlfar Steindórsson, member of the board since 2010.

Education: Cand. Oecon degree from the University of Iceland and MBA from Virginia Commonwealth University.

Current commitments: CEO, Toyota Iceland ehf.

Katrín Olga Jóhannesdóttir, member of the board since 2009.

Education: Cand. Oecon degree from the University of Iceland and MSc in business economics from Odense University.

Current commitments: Co-owner and Chairman of Já ehf.

Ásthildur M. Otharsdóttir, member of the board since 2012.

Education: Cand. Oecon degree from the University of Iceland. MBA degree from the Rotterdam School of Management, Erasmus University in the Netherlands.

Current commitments: Independent management consultant.

Magnús Magnússon, member of the board since 2014.

Education: Bachelor's degree in business from the University of Iceland. Master's degree from the Norwegian Business School.

Current commitments: LBI hf.

Management

The management team of Icelandair Group is led by the Executive Committee. The Executive Committee comprises Björgólfur Jóhannsson, Chief Executive Officer, Bogi Nils Bogason, Chief Financial Officer, Birki Hólm Guðnason, Managing Director of the subsidiary Icelandair and Magnea Pórey Hjálmarsdóttir, Managing Director of Icelandair Hotels.

The Group's management emphasises the importance of collaboration between its subsidiaries as highlighted in the segmentation by the Group into the Route Network and Tourism Services. The business segmentation stresses the importance for subsidiaries to focus on a Group-wide approach to their daily operations.

The Executive Committee leads a team of specialists whose task is to harness the potential synergy effects, organise the overall operational network and ensure efficient financial management of Icelandair Group and its subsidiaries. The management team also formulates and ensures compliance by all subsidiaries with the overall strategy of the Group. All operational companies of the Group have their individual management, with executives in charge of the daily business, supported by the Group management.

Björgólfur Jóhannsson, CEO Icelandair Group hf.

Education: Cand. Oecon degree in business administration from the University of Iceland and a state authorised public accountant in Iceland.

Bogi Nils Bogason, CFO Icelandair Group hf.

Education: Bachelor's and Cand. Oecon degrees in business from the University of Iceland and a state authorised public accountant in Iceland.

Birkir Hólm Guðnason, MD of Icelandair

Education: Bachelor's degree in business economics and administration and an MBA in international business and economics, from Aalborg University, Denmark.

Magnea Þórey Hjálmarsdóttir, MD of Icelandair Hotels

Education: MBA from the University of Surrey, UK.

Conflicts of interest within administrative, management and control bodies

To the extent that can be reasonably verified by the Company, no conflict of interest exists regarding the private affairs, family relations, or any other kind, between members of the administrative and senior management bodies that might conflict with the Company's interests or prevent the aforementioned to faithfully execute their duties to the Company.

Audit Committee

The Group Audit Committee is appointed by the Group's Board of Directors. The committee consists of a minimum of three members who are independent of the Company's day-to-day operations. The members must have relevant experience and expertise regarding auditing and applicable laws.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The Committee oversees the Company's annual accounts and the Group's consolidated accounts.

The Committee is responsible for evaluating the independence and the eligibility of both the Company's auditor and its auditing firm. The Committee makes suggestions to the Board of Directors regarding the selection of the Company's auditor.

According to Article 8.8 of the Articles of Association of the Company, committees working on behalf of the Board of Directors are elected in accordance with provisions of the rules of the Board of Directors, and their conclusions are advisory for the Board of Directors which is not bound by the committee's conclusions when resolving matters unless otherwise stipulated by law.

The Board of Directors have elected Katrín Olga Jóhannesdóttir, Ásthildur Margret Otharsdottir and Magnús Magnússon as members of the Group's Audit Committee with Katrín Olga acting as Chairman.

According to the Guidelines on Corporate Governance, issued by the Iceland Chamber of Commerce, Nasdaq Iceland and the Confederations of Icelandic Employers, the Audit Committee must consist of at least three members, the majority of whom must be independent of the Company.

Interest of natural and legal persons involved in the issue

The Sole Bookrunner and/or its affiliates have engaged in, and may in future engage in, investment banking and/or commercial banking or other services for the Issuer and the Group in the ordinary course of business. Accordingly, conflicts of interest may exist or may arise as a result of the Sole Bookrunner and/or its affiliates having previously engaged, or engaging in future, in transactions with other parties, having multiple roles or carrying out other transactions for third parties with conflicting interests.

SELECTED FINANCIAL INFORMATION

The following tables provide a summary of Icelandair Group's historical financial information as of, and for, the periods presented. The financial information should be read together with the audited financial statements that are incorporated in this Prospectus by reference. The audited annual reports that are incorporated herein have been prepared in accordance with IFRS. Figures reported in this section have in some cases been rounded and therefore the tables do not necessarily always add up exactly.

The Group's balance sheet, income statement and cash flow statement as of the latest annual report is prepared in accordance with the Group's accounting principles and have been audited by the Group's auditor. No other information in the prospectus has been reviewed or audited by the Group's auditor. The revised balance sheet and income statement and cash flow statement represents the Group's historical financial information.

The interim financial statements have been prepared in accordance with IAS, Interim Financial Reporting. The financial information should be read together with the interim financial statements that are incorporated in this Prospectus by reference. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2015.

INCOME STATEMENT

(MUSD)	2016-01-01 – 09-30	2015-01-01 – 09-30	2015-01-01 – 12-31	2014-01-01 – 12-31
Transport revenue	762,037	685,686	848,868	811,002
Aircraft and aircrew lease	66,199	58,243	83,356	74,754
Other operating revenue	200,866	165,804	207,475	227,541
Total operating income	1,029,102	909,733	1,139,699	1,113,297
Operating expenses				
Personnel expenses	256,078	201,665	280,244	273,161
Aviation expenses	331,658	322,107	406,649	457,296
Other operating expenses	223,974	182,237	233,824	228,502
Operating profit	811,710	706,009	920,717	958,959
Operating profit before EBITDA	217,392	203,724	218,982	154,338
Operating profit before tax	142,305	140,373	140,223	79,908
Income tax for the period	30,367	29,417	29,000	15,483
Profit for the period	111,938	110,956	111,223	66,499

BALANCE SHEET

	2016- 09-30	2015- 09-30	2015- 12-31	2014- 12-31
(MUSD)				
Assets				
Operating Assets	545,227	353,138	419,071	319,340
Intangible assets	174,533	173,762	172,694	175,973
Investments in associates	22,413	18,678	18,223	2,324
Deferred cost	75	137	118	153
Receivables and deposits	68,486	26,251	27,474	16,413
Non-current assets	810,486	571,966	637,580	514,203
Inventories	20,999	25,388	19,205	22,906
Trade and other receivables	153,568	133,081	101,075	96,470
Assets held for sale	4,148	0	0	0
Short term investments	3,173	28,472	19,533	30,879
Cash and Cash equivalents	191,397	256,553	194,586	184,762
Current assets	373,285	443,494	334,399	335,017
Total assets	1,184,019	1,015,460	971,979	849,220
Equity and Liabilities				
Share capital	40,576	40,576	40,576	40,576
Share premium	154,705	154,705	154,705	154,705
Reserves	113,114	16,764	1,400	3,195
Retained earnings	274,137	259,405	259,746	166,371
Equity attributable to equity holders of the Company	582,532	471,450	456,427	364,847
Non-controlling interest	353	184	104	208
Total equity	582,885	471,634	456,531	365,055
Non-current liabilities	140,208	131,293	99,516	82,643
Current liabilities	460,926	412,533	415,932	401,522
Total Liabilities	601,134	543,826	515,448	484,165
Total equity and liabilities	1,184,019	353,138	971,979	489,220

CASH FLOW

	2016-01-01 – 09-30	2015-01-01 – 09-30	2015-01-01 – 12-31	2014-01-01 – 12-31
(MUSD)				
Cash flow from operating activities				
Profit for the year	111,938	110,956	111,223	66,499
Adjustments for: Depreciation and amortisation	74,588	62,752	83,826	75,329
Adjustments for: Other operating items	34,976	34,473	16,211	20,979
Working capital from operations	221,502	208,181	211,260	162,807
Net cash from operating activities	248,495	208,496	245,136	215,315
Net cash used in investing activities	221,773	132,435	219,942	130,156
Net cash used in financing activities	34,084	3,704	14,320	88,684
Cash and cash equivalents at end of period	191,397	256,553	194,586	184,762

HISTORICAL FINANCIAL INFORMATION

Historical financial information

The Group's consolidated financial statements for the financial year ended 31 December 2014 and the figures for the financial year ended 31 December 2015 as set out below are incorporated into this Prospectus by reference (please see section "*Other Information*"). The information incorporated by reference is to be read as part of this Prospectus.

The Group's consolidated financial statements for the financial year ended 31 December 2014 and for the financial year ended 31 December 2015 have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the EU.

Other than the auditing of the Group's consolidated financial statements for the financial year ended 31 December 2014 and for the financial year ended 31 December 2015, the Group's auditor has not audited or reviewed any part of this Prospectus.

The Group's consolidated financial statements for the financial year ended 31 December 2015 is incorporated into this Prospectus by reference. For particular financial figures, please refer to the pages set out below:

- consolidated income statement, page 72;
- consolidated balance sheet, page 74;
- consolidated cash flow statement, page 76;
- consolidated statement of changes in equity, page 75; and
- the audit report, page 70.
- notes, page 77-108.

The specific information set out below (as also stated in section "*Other information*" subheading "*Documents incorporated by reference*" in this Prospectus) from the Group's consolidated financial statements for the financial year ended 31 December 2014 is incorporated into this Prospectus by reference. For particular financial figures, please refer to the pages set out below. The other information set out in the consolidated financial statements for the financial year ended 31 December 2014 is deemed to not be relevant for the purpose of the Prospectus Regulation as corresponding up to date information is included in the consolidated financial statements for the financial year ended 31 December 2015.

- consolidated income statement, page 70;
- consolidated balance sheet, page 72;
- consolidated cash flow statement, page 74;
- consolidated statement of changes in equity, page 73;
- the audit report, page 68; and
- notes, page 75-106.

The Group's consolidated interim financial statements for the financial period 1 January 2016 to 30 September 2016 is incorporated into this Prospectus by reference. For particular financial figures, please refer to the pages set out below:

- consolidated income statement, page 4;
- consolidated balance sheet, page 5;

- consolidated cash flow statement, page 7;
- consolidated statement of changes in equity, page 6;
- notes, page 8-16.

The Group's consolidated interim financial statements for the financial period 1 January 2015 to 30 September 2015 is incorporated into this Prospectus by reference. For particular financial figures, please refer to the pages set out below:

- consolidated income statement, page 4;
- consolidated balance sheet, page 5;
- consolidated cash flow statement, page 7;
- consolidated statement of changes in equity, page 6;
- notes, page 8-14.

Auditing of the annual historical financial information

The Company's consolidated financial statements as at present and for the years 2014 to 2015 have been audited, as applicable, by KPMG ehf., Borgartun 27 Reykjavik 105 Iceland . KPMG ehf. has been the Company's auditor since 2005, and was re-elected for an additional year on the latest annual general meeting. Mr. Alexander Edvardsson and Ms. Audur Osk Thorisdottir are the auditors who are responsible for the Company. They are authorized auditor and are members of the professional body The Institute of State Authorized Public Accountants in Iceland (FLE), the professional institute for the accountancy sector in Iceland.

The auditing of the consolidated financial statements was conducted in accordance with international standards on auditing and the audit reports were submitted without comment.

Age of the most recent financial information

The most recent audited financial information has been taken from the consolidated financial statements for the financial year ended 31 December 2015, which was published on 8 February 2016 on the Issuer's website www.icelandairgroup.is.

OTHER INFORMATION

Assurance regarding the Prospectus

Icelandair Group hf. is responsible for the content of the Prospectus and has taken all reasonable precautions to ensure that, as far as the Company is aware, the information in the Prospectus accords with the facts and contains no omission likely to affect its import. To the extent prescribed by law, the board of directors of the Company is also responsible for the content of the Prospectus. The board of directors has taken all reasonable care to ensure that the information in the Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Clearing and settlement

As of the date of this Prospectus, Bonds have been issued in an initial amount of USD 150,000,000 on 26 October 2016 and the Issuer may, subject to certain conditions set out in the Terms and Conditions, issue additional Bonds in a maximum aggregate amount of USD 300,000,000. The minimum permissible investment in the Bonds is USD 150,000. The ISIN for the Bonds is NO0010776982.

The Bonds have been issued in accordance with Swedish law. The Bonds are connected to the account-based system of Verdipapirsentralen ASA (VPS). No physical notes have been or will be issued. Payment of principal, interest and, if applicable, withholding tax will be made through Verdipapirsentralen ASA (VPS) book-entry system.

Material contracts

The Group has not entered into any material contracts not in the ordinary course of its business and which may affect the Group's ability to fulfil its obligations under the Bonds.

Material investments

Since the publication of its latest interim financial statements, Icelandair Group hf. has purchased the company Hljómalindarreitur ehf., which is the owner of buildings at 26-34 Hverfisgata and 4 Smiðjustígur in Reykjavik where Icelandair Hotels operate Canopy by Hilton Reykjavik. The lease agreement between Icelandair Hotels and Hljómalindarreitur expires in 2039. The purchase will increase the assets of Icelandair Group by 4.5 billion ISK.

Documents incorporated by reference

This Prospectus is, in addition to this document, comprised of information from the following documents which are incorporated by reference and available in electronic format on the Issuer's website at www.icelandairgroup.is:

- the Group's consolidated interim financial statements for the financial period 1 January 2016 to 30 September 2016; and
- the Group's consolidated interim financial statements for the financial period 1 January 2015 to 30 September 2016; and

- the Group's consolidated financial statements and audit report for the financial year ended 31 December 2015; and
- the Group's consolidated financial statements and audit report for the financial year ended 31 December 2014; and

Documents available for inspection

The following documents are available at the Company's headquarters at Reykjavik Airport, 101 Reykjavik, Iceland, on weekdays during the Company's regular office hours throughout the period of validity of this Prospectus.

- the Company's articles of association;
- the Company's certificate of registration;
- the Group's consolidated financial statements and audit report for the financial year ended 31 December 2015 and for the financial year ended 31 December 2014;
- the financial statements and audit reports for the financial year ended 31 December 2015 and for the financial year ended 31 December 2014 for each company within the Group (to the extent such Group companies were incorporated during 2014 or 2015 and have issued financial statements and audit reports for such financial years);
- this Prospectus;

The following documents are also available in electronic form on the Company's website <http://www.icelandairgroup.is>:

- the Group's consolidated financial statements and audit report for the financial year ended 31 December 2015 and for the financial year ended 31 December 2014; and
- this Prospectus.

Listing costs

The aggregate cost for the Bonds' admission to trading is estimated not to exceed SEK 300,000.

CORPORATE GOVERNANCE

FRAMEWORK FOR CORPORATE GOVERNANCE

The Issuer is an Icelandic public limited liability whose business is conducted in accordance with the Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers, along with the Issuer's Articles of Association, and Rules for Issuers of Securities listed on the NASDAQ OMX Iceland, which follows the rules of corporate governance in Iceland. As a company whose securities are admitted to trading on NGM, the Issuer will also comply with the NGM rules for issuers and other applicable Swedish laws and regulations.

THE GENERAL MEETING

The General Meeting is the Issuer's highest decision-making body and is authorized to decide in all matters not expressly reserved by another body's exclusive competence.

THE BOARD OF DIRECTORS AND THE WORK OF THE BOARD OF DIRECTORS

The Issuer's board of directors consists of 5 members. The board members are elected at the annual general meeting for a term of one year. The Board has its headquarters in Reykjavík, Iceland.

The board of director's task is to conduct the Issuer's affairs and to be responsible for its organization. The board of directors is chaired by the Chairman. At the board meetings, the company's financial situation and the review of ongoing and planned projects include matters that are specifically dealt with.

ICELANDIC GUIDELINES FOR CORPORATE GOVERNANCE

It is the opinion of the Board of Directors that Icelandair Group complies in all main respect with the Icelandic guidelines for Corporate Governance. The Issuer however does not have a Nomination Committee as the Board of Directors has not seen the need for it. That decision will however be reconsidered regularly.

ARTICLES OF ASSOCIATION

Articles of Association for Icelandair Group Hf.

1. THE NAME OF THE COMPANY, DOMICILE AND OBJECT

1.1

The name of the Company Icelandair Group hf.

1.2

The Company is a public limited liability company

1.3

The Company is domiciled at Reykjavíkurlugvöllur, Reykjavík.

1.4

The object of the Company is to own and run airlines and tourism companies, purchase and sale of shares, especially shares in other companies working in the field of aviation, travel industry and transport, purchase and sale of real estate, lending and other related business.

2. SHARE CAPITAL OF THE COMPANY

Share capital – shares - votes

2.1

The Company's share capital is 5,000,000,000.

2.2

Each share is ISK one krona.

2.3

One vote is attached to each share at shareholders' meetings. (Special provisions on increase of share capital and other special provisions are contained in Clause 15 and 16).

Increase of share capital

2.4

Only a Shareholders' Meeting may decide to increase the Company's share capital, either by subscription of new shares or issuance of compensation shares.

Preemptive rights

2.5

Shareholders shall have a preemptive right to purchase new shares in proportion to their registered holdings. Exemptions from this are authorized; cf. paragraph 3 of Article 34 of Act no. 2/1995 respecting limited liability companies (the "**Company Act**").

Shares – share register

2.6

The Company's shares shall be issued electronically in accordance with the provisions of the act on Electronic Registration of Title to Securities.

2.7

A share register in accordance with the provisions the Act on Electronic Registration of Title to Securities shall be regarded as sufficient proof ownership over shares in the Company and dividends and all notifications shall be sent to the party which is at each time registered as an owner of the relevant shares in the Company's share register.

Sale of shares and changes of ownership

2.8

No restrictions are placed on the shareholder's right to sell his shares. The provisions of the Act on Electronic Registration of Title to Securities and rules based on the Act shall govern the change of ownership.

2.9

Sale of shares to foreign parties shall be governed by Icelandic law as it reads at the relevant time.

Rights and obligations of shareholders

2.10

Shareholders are obligated, without any statement on their behalf, to abide by the Articles of Association as they are issued or later lawfully amended. Shareholders will not, neither according to the Articles of Association or subsequent amendments, become obligated to increase their holdings in the Company and shall not be subjected to redemption of their shares. Shareholders are not responsible for the Company's obligations exceeding their holding in the Company unless they take on such liability in a legally binding document. This provision will not be changed or discontinued by any resolution of a shareholders' meeting.

2.11

No special rights accompany the shares.

Communication with shareholders

2.12

Electronic file communication and e-mailing is permitted between the Company and shareholders instead of sending and submitting written documents. The authorization extends to any kind of communication between the Company and shareholders, e.g. invitations to shareholders' meetings, distribution of dividends and other notifications which the Board of Directors sends the shareholders. Such electronic communication is equal to correspondence written on paper. The Board of Directors shall set rules stipulating the conduct of electronic communication and the standards of the software used for this purpose. The rules shall be accessible to shareholders. Shareholders who wish to communicate electronically with the Company shall send the Company a confirmation thereof in accordance with the rules set by the Board of Directors.

3. CORPORATE GOVERNANCE

3.1

The Company shall be governed by:

- (a) The Shareholders' meetings.
- (b) The Board of Directors.
- (c) The Managing Director.

4. SHAREHOLDERS' MEETINGS

4.1

The supreme power of the Company's affairs, within the boundaries set by these Articles of Association and Icelandic legislation is in the hands of lawful shareholders' meetings.

Right to participation

4.2

Shareholders, shareholders' agents, the Company's accountants and the managing director, even if he is not a shareholder, have the right to participate in shareholders' meetings. Furthermore, the Board of Directors may invite specialists to attend the shareholders' meeting if their advice or assistance is required.

4.3

The Board of Directors is authorized to decide that shareholders may participate in shareholders' meetings by electronic means without being physically present. If the Board of Directors feels that the Company has equipment which is sufficiently safe to allow shareholders to participate in shareholders' meetings electronically without being physically present and the Board of Directors decides to use this authorization it shall be announced in the invitation to the meeting.

4.4

Shareholders who intend to participate electronically in shareholders' meetings shall notify the Company's office with 5 days notice thereof and submit written questions regarding the agenda or documents to be presented at the meeting which they require answers to.

4.5

The shareholders shall have access to instructions regarding electronic participation in shareholders' meetings along with a password and necessary equipment for participation. An inserted password into a computer system is deemed to be equal to the shareholder's signature and is viewed as valid participation in the shareholders' meeting.

Electronic shareholders' meetings

4.6

The Board of Directors may decide that a shareholders' meeting only be held electronically.

4.7

If the Board of Directors feels that the meeting can be held only electronically with suitable equipment and thereby allowing shareholders to participate electronically, the invitation to the meeting shall clearly give information regarding the technical equipment and information on

how shareholders notify the Company of their electronic participation and where they can receive information, instructions and a password for participation. An inserted password into a computer system is deemed to be equal to the shareholder's signature and is viewed as valid participation in the shareholders' meeting.

Voting outside a meeting

4.8

If the Board of Directors feels that it is not possible to allow shareholders to participate in shareholders' meetings electronically they shall be allowed to vote on proposals or participate in voting in writing or electronically. The Board of Directors shall set rules regarding the execution of such voting.

Power of Attorney

4.9

A shareholder may send an agent to the shareholders' meeting on his behalf. The agent shall submit a written or an electronic power of attorney which shall be dated.

4.10

A power of attorney will not be validly revoked after it has been submitted at the delivery of meeting documents or after the shareholders' meeting has been declared open, whichever happens first.

Lawfulness of shareholders' meetings

4.11

A shareholders' meeting is lawful without regard to attendance if it is lawfully called for.

Annual General Meeting

4.12

An annual general meeting shall be held within eight months from the end of the financial year. Annual general meetings shall be called with the same method as other shareholders' meetings in accordance with the provisions of Clause 4.16 and 4.17.

Agenda of the Annual General Meeting

4.13

The following matters shall be addressed at annual general meetings:

- The Board of Director's report on the Company's operations in the past year shall be presented.
- Confirmation of annual accounts and decision on the handling of profit or loss of the financial year.
- Decision on payments to board members.
- Proposals of the Board of Directors regarding the remuneration policy.
- Election of the Board of Directors in accordance with the provisions of Clause 5.
- Election of auditor in accordance with the provisions of Clause 10.1.

- Proposals from shareholders which shall be on the agenda according to the provisions of Clause 4.20, cf. paragraph 4 of Article 88 of the Company Act.
- Other matters.

If shareholders who control at least 1/3 of the Company's share capital insist in writing at the annual general meeting, a decision on item 2 on the agenda shall be postponed to the extended annual general meeting which shall be held no earlier than one month and no later than two months later. No further continuance can be requested.

The Company's annual accounts, report of the Board of Directors, and report of the auditor shall be available for review by the shareholders at the Company's offices 7 days before the annual general meeting.

Invitation to shareholders' meetings

4.14

The Board of Directors shall call for shareholders' meetings when it deems it necessary, or when the elected auditor or shareholders controlling at least 1/10 of the share capital insist in writing and suggest an agenda for the meeting.

4.15

When a lawful claim for a shareholders' meeting is presented, the Board of Directors is obligated to call for a meeting within 14 days from receiving such a claim. If the Board of Directors has not called for a meeting within that time limit a meeting can be called for in accordance with the provisions of paragraph 2 of Article 87 of the Company Act.

4.16

Shareholders' meetings shall be called for with a method which is considered to ensure swift access to the meeting on equal grounds. Trustworthy media shall be used which ensures the circulation of the invitation to the public in the European Economic Area. Such media includes the OMX information system and Huginonline. The meeting shall also be called for with an advertisement in Icelandic media.

Deadline for calling meetings

4.17

Shareholders' meetings shall be called for with a minimum of three weeks' notice.

Invitation

4.18

The invitation shall include information regarding:

- The place of the meeting, time and draft agenda.
- Clear and precise rules on participation in and voting at shareholders' meetings.
- Where and how shareholders can get:
 - Unabridged documents as they will be presented at the shareholders' meeting;
 - Unabridged proposals and/or comments of the Board of Directors or its committees on each item on the draft agenda;
 - Unabridged shareholder proposals as received by the Company.

- Website where information can be located on the issues that shareholders shall, according to law, have access to in connection to a shareholders meeting.

4.19

If a proposal on amendments to the Company's Articles of Association is to be addressed at the meeting the substance of the proposal shall be described in the invitation.

Proposals from shareholders

4.20

Each shareholder has the right to have certain matters addressed at the shareholder's meeting if he so requests in writing or by electronic means to the Board of Directors of the Company with time enough in advance so that the matter can be placed on the agenda and presented to shareholders seven days before the meeting.

Agenda

4.21

The agenda shall be available for shareholders' review at the Company's office, along with final proposals to be addressed at the meeting, no later than seven days before the meeting.

Proposals for changes

4.22

Lawfully proposed additions or amendments may be presented on the shareholders' meeting itself, even though they were not available for the shareholders' review prior to the meeting.

Matters not on the agenda

4.23

Matters which have not been listed on the agenda may not be finally resolved at the shareholders' meeting without the consent of all shareholders in the Company. Those matters may however be resolved as directions to the Board of Directors.

4.24

If proposals under them item "Other matters" are presented they may not be finally resolved at the meeting, cf. Clause 4.23.

Chairman

4.25

Shareholders' meetings are chaired by a chairman elected by the meeting and he will nominate a secretary with the approval of the meeting. The chairman shall solve all matters which arise concerning the lawfulness of the meeting and its conduct in accordance with these Articles of Association and Icelandic legislation. He shall furthermore, decide the form of discussions, procedures for addressing matters at the meeting and voting.

Minutes of shareholders' meetings

4.26

Minutes of the meeting shall be kept in detail and all resolutions and results of voting recorded. The minutes shall be read out loud at the end of the meeting and comments on the minutes noted in the minutes. The minutes shall be signed by the chairman and secretary. The minutes shall constitute full proof of the events of shareholders' meetings.

Weight of votes

4.27

A simple majority of votes will decide matters at shareholders' meetings unless otherwise stipulated in these Articles of Association or Icelandic law. A proposal is stricken if votes are equal. If two or more men receive the equal amount of votes in elections a tossup shall determine the election.

5. BOARD OF DIRECTORS

5.1

The annual general meeting of the Company annually elects 5 men for the Board of Directors. Their ability is determined by law.

Candidacy

5.2

Those who intend to run for the Board of Directors shall notify the Board of Directors of their candidacy at least 5 days before a shareholders' meeting. The notification shall list the name, identification number and address of the candidate along with information about his main employment, other board memberships, education, experience and shareholdings. Candidates shall furthermore list any interest connected to main clients and competitors of the Company and shareholders controlling more than 10% of the Company.

5.3

The Board of Directors shall review notifications of candidacy and give the candidate, in verifiable manner, the opportunity to correct any flaws the notification has within a specific time limit. If the flaws are not corrected within the given time limit the Board of Directors shall decide on the validity of candidacy. The Board's decision can be put to the decision of the shareholders' meeting which shall have supreme power in deciding the validity of the candidacy.

5.4

Information about candidates for the Board of Directors shall be available for shareholders' review at the Company's offices no later than 2 days before the shareholders' meeting.

6. ELECTION OF THE BOARD OF DIRECTORS

6.1

The election of board members shall be based on a majority vote between individuals.

6.2

The election shall usually be written if the number of candidates is greater than the number of board members to be elected.

6.3

If the Company's shareholders are more than 200, shareholders controlling at least 1/10 of the share capital can insist that the voting of board members be proportional or cumulative. If the shareholders are fewer than 200 shareholders who control 1/5 of the share capital can request these voting methods.

6.4

A claim for proportional or cumulative voting shall be presented to the Board of Directors at least five days before the shareholders' meeting.

6.5

The two female candidates and the two male candidates that receive the most votes and the person who receives the most votes after the aforementioned in the election of board members shall be deemed as the rightfully elected board members.

7. DIVISION OF TASKS

7.1

The Board of Directors elects a chairman of the board from the members of the board. Otherwise the Board of Directors divides tasks as necessary.

7.2

The chairman of the Board of Directors calls board meetings and chairs the meetings. Board meetings shall be held whenever the chairman deems necessary. A meeting shall usually be held if a board member or the Managing Director insists.

7.3

The board members may participate in board meetings through communication systems. Board meetings may also be held with the assistance of electronic media in so far as it is consistent with Article 70 of the Company Act.

8. MEETINGS OF THE BOARD OF DIRECTORS

Lawfulness of board meetings

8.1

A board meeting is able to make decisions when a majority of board members participate in meetings. If possible, an important decision may not be taken without all members of the Board of Directors having had a chance to discuss the matter.

Voting

8.2

A simple majority of votes decides matters in board meetings. Proposals are stricken if votes are equal. If votes are equal in elections between men a tossup shall decide the election.

Minutes of meetings

8.3

Board members shall keep minutes of meetings and confirm the minutes with their signature.

Goals and obligations

8.4

The Board of Directors has supreme powers in matters concerning the Company between shareholders' meetings and sets the Company's goals regarding its business and represents the Company's and the shareholder's interests in accordance with the object of the Company. The Board of Directors governs the social affairs of the Company between shareholders' meetings and binds the Company with its resolutions and agreements. The Board of Directors hires a managing director, one or more, decides his terms of employment and executes a written contract of employment.

8.5

The Board of Director grants power of procuration.

8.6

The signature of the majority of the Board of Directors is required to bind the Company.

8.7

The Board of Directors works in accordance with rules set by the Board of Directors in accordance with the Company Act.

Board committees

8.8

If committees working on behalf of the Board of Directors are elected in accordance with provisions of the rules of the Board of Directors their conclusions shall only be directive for the Board of Directors and it is not bound by their conclusions when resolving matters unless otherwise stipulated by law.

9. MANAGING DIRECTOR

9.1

The Managing Director handles the day to day operations of the Company in accordance with the rules the Board of Directors has or will set forth. The day to day operations do not include matters which are unusual or of great significance.

9.2

The Managing Director shall make sure the Company's accounts are kept in accordance with law and practice and that the Company's assets are kept in a secure manner.

9.3

The Managing Director is obligated to abide by all instructions of the Board of Directors. He shall give the auditor any information he requests.

10. ACCOUNTING AND AUDITING

10.1

The financial year of the Company is the calendar year. The annual accounts shall be audited by an auditing company. An auditor or auditor company shall be elected at an annual general meeting for a term of one year.

11. THE COMPANY'S SHARES

11.1

The Company is authorized to own up to 10% of the Company's share capital. Votes are not attached to shares owned by the Company. The Company can only acquire shares in accordance with the authorization of a shareholders' meeting to the Board of Directors only in order to establish a market making agreement regarding shares in the Company or to establish a buy-back programme. An authorization to the Board of Directors to purchase shares in the Company may not be valid for more than 18 months at a time. Rules concerning purchasing and selling shares shall be stipulated in the rules of the Board of Directors.

12. CHANGES TO THE ARTICLES OF ASSOCIATION

12.1

The Articles of Association may only be changed by a lawful shareholders' meeting as long as the proposal for the change is described in the invitation to the meeting. The decision is only valid if approved by 2/3 of the votes and approved by shareholders controlling at least 2/3 of the votes represented at the shareholders' meeting.

13. DISSOLUTION

13.1

Should it be advisable or necessary to dissolve the Company, proposals thereof shall be governed by Chapter XIII of the Company Act.

14. MERGER

14.1

The provisions of Chapter XIV of the Company act shall apply to a merger of the Company with other companies.

15. SPECIAL PROVISIONS ON INCREASE OF SHARE CAPITAL

16. OTHER PROVISIONS

16.1

Where the provisions of these Articles of Association do not stipulate the form of proceedings the provisions of the Company Act shall be abided by.

Headlines of specific articles and information in smaller font within brackets do not form part of these Articles of Association but are inserted for practical reasons.

These Articles of Association were approved by the Company's shareholder's meeting on 21 May 2010 and replace the older Articles of Association.

Article 2.1 was changed on 9 September 2010.

Article 2.1 was changed on 27 December 2010.

Article 5.1 was changed on 23 March 2012.

Article 15.1 was changed on 23 March 2012.

Article 6.5 and 6.6 were changed on 13 March 2013.

Article 5.1 changed and article 6.6 removed on 11 March 2015.
Article 11.1 changed and article 15 removed on 10 March 2016.

TERMS AND CONDITIONS OF THE BONDS

1. Definitions and Construction

1.1 Definitions

In these terms and conditions (the "**Terms and Conditions**"):

"**Account Operator**" means a Bondholder's account manager in the CSD.

"**Accounting Principles**" means international financial reporting standards (IFRS) within the meaning of Regulation 1606/2002/EC (as in force on the First Issue Date as applied by the Issuer in preparing its annual consolidated financial statements).

"**Adjusted Nominal Amount**" means the Total Nominal Amount less the Nominal Amount of all Bonds owned by a Group Company or an Affiliate, irrespective of whether such person is directly registered as owner of such Bonds.

"**Advance Purchase Agreements**" means

- (a) an advance or deferred purchase agreement if the agreement is in respect of the supply of assets or services and payment is due not more than 90 days after the date of supply; or
- (b) any other trade credit incurred in the ordinary course of business.

"**Affiliate**" means any Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purpose of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"**Agency Agreement**" means the agency agreement entered into on or before the First Issue Date, between the Issuer and the Agent, or any replacement agency agreement entered into after the First Issue Date between the Issuer and an agent, regarding, *inter alia*, the remuneration payable to the Agent.

"**Agent**" means Nordic Trustee & Agency AB (publ), Swedish Reg. No. 556882-1879, or another party replacing it, as Agent, in accordance with these Terms and Conditions.

"**Aircraft Downpayment**" means the payment in respect of the aircraft to be acquired and part-financed using Net Proceeds from the Bond Issue.

"**Aircraft Lease Liabilities**" means off balance sheet operating lease agreements for aircraft.

"**Bondholder**" means the person who is registered on a Securities Account as direct registered owner or nominee with respect to a Bond.

"**Bondholders' Meeting**" means a meeting among the Bondholders held in accordance with Clause 17 (*Bondholders' Meeting*).

"**Bond**" means a debt instrument for the Nominal Amount of the type set forth in section 2-2(2)(2) of the Norwegian Securities Trading Act and which are governed by and issued under these Terms and Conditions, including the Initial Bonds and any Subsequent Bonds.

"**Business Day**" means a day on which banks are generally open for business in Sweden, United Kingdom, Iceland and Norway.

"**Business Day Convention**" means the first following day that is a Business Day unless that day falls in the next calendar month, in which case that date will be the first preceding day that is a Business Day (modified following business day convention).

"**Call Option**" means the Issuer's right to redeem outstanding Bonds in full accordance with Clause 10.3 (*Voluntary Total Redemption*).

"**Call Option Amount**" means 100.22 per cent. of the Nominal Amount, together with accrued but unpaid interest, if the Call Option is exercised on or after the date falling 48 months after the Issue Date to, but not including, the Final Maturity Date.

"**Cash and Cash Equivalents**" means the cash and cash equivalents as reported in the Group's balance sheet in accordance with the applicable accounting principles of the Group from time to time.

"**Change of Control Event**" means the occurrence of an event or series of events whereby one or more persons acting together acquire control over the Issuer and where "control" means:

- (a) acquiring or controlling, directly or indirectly, more than 50 per cent. of the voting shares of the Issuer, or
- (b) the right to, directly or indirectly, appoint or remove the whole or a majority of the directors of the board of directors of the Issuer.

"**Compliance Certificate**" means a certificate, in form and substance satisfactory to the Agent, signed by the Issuer certifying (i) the satisfaction of the Maintenance Test and (ii) that so far as it is aware no Event of Default is continuing or, if it is aware that such event is continuing, specifying the event and steps, if any, being taken to remedy it. If the Compliance Certificate is provided in connection with the publishing of a Financial Report, the Compliance Certificate shall include calculations and figures in respect of the Maintenance Test and if the Compliance Certificate is provided in connection with a Restricted Payment and/or incurrence of Financial Indebtedness include calculations and figures in respect of such Restricted Payment and/or incurrence of Financial Indebtedness.

"**CSD**" means the Issuer's central securities depository and registrar in respect of the Bonds, from time to time, initially Verdipapirsentralen ASA (VPS), reg. no. 985 140 42, P.O. Box 4 Sentrum, 0051 Oslo. 1, Norway.

"**De-listing Event**" occurs if at any time: (i) the Issuer's shares are not listed and admitted to trading on Nasdaq Iceland or any other Regulated Market or (ii) trading of the Issuer's shares on the aforementioned stock exchanges is suspended for a period of 15 consecutive banking days.

"**EBITDA**" means, in respect of the Reference Period, the EBITDA of the Group according to the latest Financial Report(s) before taking into account any Transaction Costs and any transaction costs relating to any acquisition of any target company.

"**EBITDAR**" means the EBITDA after adding back any amount attributable to aircraft lease costs in respect of the relevant Reference Period.

"**Event of Default**" means an event or circumstance specified in any of the Clauses 14.1 (*Non-Payment*) to and including Clause 14.9 (*Continuation of the Business*).

"**Equity**" means the equity as reported in the Group's balance sheet in accordance with the applicable accounting principles of the Group from time to time.

"**Final Maturity Date**" means the date falling five (5) years after the First Issue Date.

"**Finance Charges**" means, in respect of the Reference Period, the finance charges of the Group according to the latest Financial Report(s) other than Transaction Costs, capitalised interest in respect of any loan owing to any member of the Group or any shareholder loan or any unrealised gains or losses on any derivative instruments other than any derivative instrument which are accounted for on a hedge accounting basis.

"**Finance Documents**" means these Terms and Conditions, the Agency Agreement and any other document designated by the Issuer and the Agent as a Finance Document.

"**Financial Indebtedness**" means any indebtedness in respect of:

- (a) monies borrowed or raised (including Market Loans);
- (b) the amount of any liability in respect of any finance leases, to the extent the arrangement is or would have been treated as a finance lease in accordance with the accounting principles applicable on the Issue Date (a lease which in the accounts of the Group is treated as an asset and a corresponding liability);
- (c) receivables sold or discounted (on a recourse basis);
- (d) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;
- (e) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the mark to market value shall be taken into account, provided that if any actual amount is due as a result of a termination or a close-out, such amount shall be used instead);
- (f) any counter indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and
- (g) (without double counting) any guarantee or other assurance against financial loss in respect of a type referred to in the above items (a) – (f).

"Financial Report" means the Group's annual audited financial statements or quarterly interim unaudited reports, which shall be prepared and made available in accordance with Clause 11.1 (*Information from the Issuer*).

"First Call Date" the date falling forty eight (48) months after the First Issue Date.

"First Issue Date" means 26 October 2016.

"Fixed Assets" means items with a useful life greater than one reporting period and categorized among non-current assets in the Group's latest Financial Report.

"Floating Rate Margin" 3.50 percentage points per annum.

"Group" means the Issuer and its Subsidiaries from time to time (each a **"Group Company"**).

"Initial Bonds" means the Bonds issued on the First Issue Date.

"Insolvent" means, in respect of a relevant person, that it is deemed to be insolvent, or admits inability to pay its debts as they fall due, in each case within the meaning of the Icelandic Act on Bankruptcy No. 21/1991 (as amended from time to time) (or its equivalent in any other jurisdiction), suspends making payments on any of its debts or by reason of actual financial difficulties commences negotiations with its creditors (other than the Bondholders) with a view to rescheduling any of its indebtedness (including company reorganisation under Icelandic law) (or its equivalent in any other jurisdiction) or is subject to involuntary winding-up, dissolution or liquidation.

"Interest" means the interest on the Bonds calculated in accordance with Clause 9 (*Interest*).

"Interest Bearing Debt" means the aggregate interest bearing debt of the Group in accordance with the applicable accounting principles of the Group from time to time (for the avoidance of doubt, excluding guarantees, bank guarantees, operational lease debt and interest bearing debt borrowed from any Group Company).

"Interest Payment Date" means 26 January, 26 April, 26 July and 26 October of each year or, to the extent such day is not a Business Day, the Business Day following from an application of the Business Day Convention. The first Interest Payment Date for the Bonds shall be 26 January 2017 and the last Interest Payment Date shall be the Final Maturity Date (or any Redemption Date prior thereto).

"Interest Period" means (i) in respect of the first Interest Period, the period from (but excluding) the First Issue Date to (and including) the first Interest Payment Date, and (ii) in respect of subsequent Interest Periods, the period from (but excluding) an Interest Payment Date to (and including) the next succeeding Interest Payment Date (or a shorter period if relevant).

"Interest Rate" means LIBOR (3 months) plus the Floating Rate Margin.

"ISK" means Icelandic Krona.

"Issuer" means Icelandair Group hf., a public limited liability company incorporated under the laws of Iceland with Reg. No. 631205-1780.

"Issuer's Cash" means, at any time, cash in hand held by the Issuer or with a reputable bank credited to an account in the name of the Issuer and in each case to which the Issuer is beneficially and legally entitled and which is immediately available to be applied towards repayment or prepayment of the Bonds or payment of interest (for the avoidance of doubt, not including e.g. any cash subject to a pledge or similar arrangement or any amount standing on client accounts, but including any unused credit facility).

"LIBOR" means:

- (a) the applicable percentage rate per annum displayed on Bloomberg's website for LIBOR fixing (or through another website replacing it) as of or around 11.00 a.m. on the Quotation Day for the offering of deposits in USD and for a period comparable to the relevant Interest Period; or
- (b) if no rate is available for the relevant Interest Period, the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Agent at its request quoted by the Reference Banks, for deposits of USD 10,000,000 for the relevant period; or
- (c) if no quotation is available pursuant to paragraph (b), the interest rate which according to the reasonable assessment of the Agent best reflects the interest rate for deposits in USD offered in the London interbank market for the relevant period.

"Maintenance Test" means the maintenance tests as set out in Clause 12 (*Maintenance Tests*).

"Make Whole Amount" means the sum of:

- (a) the present value on the relevant record date of 100.22% of the Nominal Amount as if such payment originally should have taken place on the First Call Date; and
- (b) the present value on the relevant record date of the remaining coupon payments (assuming that the interest rate for the period from the relevant redemption date to the First Call Date will be equal to the interpolated USD mid-swap rate for the remaining term from the redemption date until the First Call Date plus the Floating Rate Margin), less any accrued but unpaid interest, through and including the First Call Date,

each calculated by using a discount rate of 50 basis points over the comparable US government bond rate (i.e. comparable to the remaining duration of the Bonds until the First Call Date) and where "relevant record date" shall mean a date agreed upon between the Trustee, the CSD and the Issuer in connection with such repayment.

"Market Loan" means any loan or other indebtedness where an entity issues commercial paper, certificates, subordinated debentures, bonds or any other debt securities (including, for the avoidance of doubt, medium term note programmes and other market funding programmes but excluding Enhanced Equipment Trust Certificates), provided in each case that such instruments and securities are or can be subject to trade on Nasdaq Stockholm or any other regulated or unregulated recognised market place.

"Material Adverse Effect" means a material adverse effect on

- (a) the business, financial condition or operations of the Group taken as a whole,
- (b) the Issuer's ability to perform and comply with its payment obligations under the Terms and Conditions, or
- (c) the validity or enforceability of the Terms and Conditions.

"Material Group Company" means the Issuer or a Subsidiary representing more than 10.00 per cent. of the total assets or EBITDA of the Group on a consolidated basis according to the latest Financial Report.

"Net Finance Charges" means, for the Reference Period, the Finance Charges according to the latest Financial Report(s), after deducting any interest payable for that Reference Period to any member of the Group and any interest income relating to cash or cash equivalent investment.

"Net Proceeds" means the proceeds from the issuance of the Initial Bonds which after deduction has been made for the Transaction Costs (excluding costs relating to the listing of the Bonds), including fees, payable by the Issuer to the Sole Bookrunner or the and the Paying Agent for the services provided in relation to the placement and issuance of the Bonds.

"Nominal Amount" has the meaning set forth in Clause 2(c).

"Norwegian Securities Register Act" means the Norwegian Act relating to registration of financial instruments of 5 July 2002 No. 64.

"Norwegian Securities Trading Act" means the Norwegian Act relating to trading of financial instruments of 29 June 2007 No. 75.

"Paying Agent" means DNB Bank ASA.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

"Permitted Debt" means any Financial Indebtedness:

- (a) incurred under the Bonds (except for Subsequent Bonds);
- (b) incurred under the outstanding bond issued by the Issuer with ISIN IS0000025427;
- (c) of the Group incurred pursuant to any leasing arrangements incurred in the ordinary course of the Group's business;
- (d) arising under a foreign exchange transaction or commodity derivatives for spot or forward delivery entered into in connection with protection against fluctuation in currency rates or prices where the exposure arises in the ordinary course of business, but not any transaction for investment or speculative purposes;
- (e) arising under any interest rate hedging transactions, but not any transaction for investment or speculative purposes;

- (f) incurred under Advance Purchase Agreements;
- (g) of the Group under any guarantee or counter-indemnity obligation issued by or for a Group Company in the ordinary course of business;
- (h) incurred as a result of any Group Company acquiring another entity and which is due to that such acquired entity holding indebtedness, provided that no Event of Default is continuing, and provided that any such acquired debt is refinanced by the Issuer within 6 months through the issuance of Subsequent Bonds, unless otherwise allowed under the section Permitted Debt;
- (i) incurred by the Issuer or any Group Company if such Financial Indebtedness, has a final maturity date or a final redemption date or, when applicable, early redemption dates or instalment dates which occur after the Final Maturity Date.
- (j) incurred by the Issuer or any Group Company if such Financial Indebtedness is constituted of a Market Loan denominated in ISK, incurred in Iceland and provided by Icelandic creditors;
- (k) of the Group under any pension or tax liabilities of the Group incurred in the ordinary course of business;
- (l) incurred under any working capital facility provided for the working capital corporate purposes of the Group (the "**Working Capital Facility**");
- (m) including undrawn facilities, existing on the Issue Date or to refinance such debt; and
- (n) other than under Market Loans, incurred to finance or refinance real estate and aircraft assets (for the avoidance of doubt, including sale lease-back transactions).

"**Permitted Security**" means any security provided under the Finance Documents;

- (a) arising by operation of law or in the ordinary course of business (including collateral or retention of title arrangements in connection with Advance Purchase Agreements but, for the avoidance of doubt, not including guarantees or security in respect of any monies borrowed or raised);
- (b) relating to any leasing set out in paragraph (c) in the definition of Permitted Debt or relating to any operational leasing;
- (c) arising under any netting or set off arrangements under financial derivatives transactions or bank account arrangements, including group cash pool arrangements;
- (d) provided for foreign exchange transactions or interest rate hedging transactions set out in paragraph (d) and (e) of the definition Permitted Debt;
- (e) provided for any guarantees or counter-indemnity obligations issued by a Group Company in the ordinary course of business;
- (f) in relation to indebtedness held by an entity acquired by a Group Company existing at the time of the acquisition (however not to be prolonged or renewed), as set out in paragraph (h) in the definition of Permitted Debt; and

(g) provided for any Financial Indebtedness incurred under items (k) – (n) of the definition of Permitted Debt.

"Proceeds Account" means a bank account of the Issuer held with a reputable bank, into which the Net Proceeds will be transferred.

"Quotation Day" means, in relation to any period for which an interest rate is to be determined, two (2) Business Days before the first day of that period.

"Record Date" means a relevant date generally applicable on the Norwegian bond market (in each case in accordance with the regulations of the CSD).

"Redemption Date" means the date on which the relevant Bonds are to be redeemed, repaid or repurchased in accordance with Clause 10 (*Redemption and Repurchase of the Bonds*).

"Reference Banks" means HSBC Bank plc, Barclays Bank plc and The Royal Bank of Scotland plc.

"Reference Dates" means 31 March, 30 June, 30 September and 31 December each year.

"Reference Period" means each period of 12 consecutive calendar months.

"Regulated Market" means any regulated market (as defined in Directive 2004/39/EC on markets in financial instruments).

"Securities Account" means the account for dematerialised securities maintained by the CSD pursuant to the Norwegian Securities Register Act in which (i) an owner of such security is directly registered or (ii) an owner's holding of securities is registered in the name of a nominee.

"Security" means a mortgage, charge, pledge, lien, security assignment or other security interest securing any obligation of any person, or any other agreement or arrangement having a similar effect.

"Sole Bookrunner" means Pareto Securities AB.

"Subsequent Bonds" means any Bonds issued after the First Issue Date on one or more occasions.

"Subsidiary" means an entity from time to time of which a person:

- (a) has direct or indirect control, according to Chapter 1 Section 11 of the Swedish Companies Act (or under such provision as may replace this provision); or
- (b) owns directly or indirectly more than 50 per cent of the share capital or other right of ownership.

"Total Assets" means the total assets as reported in the Group's balance sheet in accordance with the applicable accounting principles of the Group from time to time.

"Total Nominal Amount" means the total aggregate Nominal Amount of the Bonds outstanding at the relevant time.

"**Transaction Costs**" means all fees, costs and expenses, stamp, registration and other taxes incurred by the Issuer or any other member of the Group in connection with (a) the issuance of the Bonds and (b) the listing of the Bonds pursuant to Clause 13.3 (*Listing of the Bonds*).

"**USD**" means United States Dollars.

"**Written Procedure**" means the written or electronic procedure for decision making among the Bondholders in accordance with Clause 18 (*Written Procedure*).

1.2 Construction

- (a) Unless a contrary indication appears, any reference in these Terms and Conditions to:
 - (i) "**assets**" includes present and future properties, revenues and rights of every description;
 - (ii) any agreement or instrument is a reference to that agreement or instrument as supplemented, amended, novated, extended, restated or replaced from time to time;
 - (iii) a "**regulation**" includes any regulation, rule or official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
 - (iv) a provision of law is a reference to that provision as amended or re-enacted; and
 - (v) a time of day is a reference to Stockholm time.
- (b) An Event of Default is continuing if it has not been remedied or waived.
- (c) A notice shall be deemed to be sent by way of press release if it is made available to the public within Sweden promptly and in a non-discriminatory manner.
- (d) When ascertaining whether a limit or threshold specified in USD has been attained or broken, an amount in another currency shall be counted on the basis of the rate of exchange for such currency against USD for the previous Business Day, as published by Bloomberg on its website (www.bloomberg.com) If no such rate is available, the most recently published rate shall be used instead.
- (e) No delay or omission of the Agent or of any Bondholder to exercise any right or remedy under the Finance Documents shall impair or operate as a waiver of any such right or remedy.

2. Status of the Bonds

- (a) The Bonds are denominated in USD and each Bond is constituted by these Terms and Conditions. The Issuer undertakes to make payments in relation to the Bonds and to comply with these Terms and Conditions.

- (b) By subscribing for Bonds, each initial Bondholder agrees that the Bonds shall benefit from and be subject to the Finance Documents and by acquiring Bonds, each subsequent Bondholder confirms such agreement.
- (c) The Nominal Amount of each Bond is USD 1.00. The Total Nominal Amount of the Initial Bonds is USD 150,000,000. All Initial Bonds are issued on a fully paid basis at an issue price of 100.00 per cent. of the Nominal Amount. The minimum permissible investment in the Bonds is USD 150,000.
- (d) Provided that no Event of Default is continuing or would result from such issue, and that no Voluntary Partial Redemption in accordance with Clause 10.4 (*Voluntary Partial Redemption*) has been made, the Issuer may, at one or several occasions, issue Subsequent Bonds. Subsequent Bonds shall benefit from and be subject to the Finance Documents, and, for the avoidance of doubt, the applicable ISIN, the interest rate, the currency, the nominal amount and the final maturity applicable to the Initial Bonds shall apply to Subsequent Bonds. The price of the Subsequent Bonds may be set at a discount or at a premium compared to the Nominal Amount. The maximum total nominal amount of the Bonds (the Initial Bonds and all Subsequent Bonds) may not exceed USD 300,000,000.
- (e) Except as set out in Clause 5 (*Transfer Restrictions*) below, and subject to any restrictions to which a Bondholder may be subject due to local law or otherwise, the Bonds are freely transferrable. Each Bondholder must ensure compliance with local laws and regulations applicable at their own cost and expense.
- (f) The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* with all direct, unconditional, unsubordinated and unsecured obligations of the Issuer, except those obligations which are mandatorily preferred by law, and without any preference among them.
- (g) No action is being taken in any jurisdiction that would or is intended to permit a public offering of the Bonds or the possession, circulation or distribution of any document or other material relating to the Issuer or the Bonds in any jurisdiction other than Sweden, where action for that purpose is required. Each Bondholder must inform itself about, and observe, any applicable restrictions to the transfer of material relating to the Issuer or the Bonds.

3. Use of Proceeds

The Net Proceeds from the issue of the Initial Bonds shall be applied towards the financing of the Aircraft Downpayment and for general corporate purposes. The proceeds from issue of Subsequent Bonds shall *inter alia* be applied towards the financing of general corporate purposes.

4. Conditions Precedent

- (a) The Issuer shall provide, or procure the provision of, the following documents and evidence to the Agent:
 - (i) copies of constitutional documents of the Issuer;

- (ii) copies of necessary corporate resolutions for the Issuer;
 - (iii) evidence that the Finance Documents have been duly executed; and
 - (iv) a legal opinion on the validity and enforceability of the Finance Documents issued by a reputable law firm.
- (b) When the Agent is satisfied that it has received the documents and evidence set out in Clause 4(a), the Agent shall instruct the Sole Bookrunner to transfer the Net Proceeds to the Proceeds Account, to be applied in accordance with Clause 3 (*Use of Proceeds*).
- (c) If the conditions precedent for disbursement set out in Clause 4(a) have not been fulfilled to the satisfaction of the Agent (acting reasonably) or waived by the Agent within thirty (30) Business Days from the First Issue Date, the Issuer shall repurchase all Bonds at a price equal to 100 per cent. of the Nominal Amount together with any accrued Interest. The repurchase date shall fall no later than thirty (30) Business Days after the ending of the thirty (30) Business Days period referred to above.

5. Transfer Restrictions

- (a) No Bondholder may offer, sell, pledge or otherwise transfer any Bond except:
- (i) to the Issuer;
 - (ii) to a person who the seller reasonably believes is a QIB within the meaning of Rule 144A under the Securities Act purchasing for its own account or for the account or benefit of a QIB in a transaction meeting the requirements of Rule 144A;
 - (iii) outside the United States in compliance with Rule 903 or Rule 904, as applicable, of Regulation S under the Securities Act;
 - (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available);
 - (v) pursuant to any other available exemption from registration under the Securities Act, subject to the receipt by the Issuer of an opinion of counsel or such other evidence that the Issuer may reasonably require confirming that such sale or transfer is in compliance with the Securities Act; or
 - (vi) pursuant to an effective registration statement under the Securities Act,
- provided however that in each case a transfer is made in accordance with all applicable securities laws of the states of the United States and any other jurisdiction.
- (b) The Bonds may not, subject to applicable Canadian laws, be traded in Canada for a period of four (4) months and a day from the date the Bonds were originally issued.
- (c) The Issuer makes no representation as to the availability of an exemption from registration provided by Rule 144 of the Securities Act.

6. Bonds in Book-Entry Form

- (a) The Bonds will be registered for the Bondholders on their respective Securities Accounts and no physical bonds will be issued. Accordingly, the Bonds will be registered in accordance with the Norwegian Securities Register Act. Registration requests relating to the Bonds shall be directed to an Account Operator.
- (b) Upon registration with the CSD, Bondholders shall be bound by these Terms and Conditions without any further action or formality being required to be taken or satisfied.
- (c) The Issuer shall at all times ensure that the registration of the Bonds in the CSD is correct and shall within five (5) Business Days of any amendment or variation of these Terms and Conditions give notice to the CSD of any such changes or variation. The Issuer shall ensure that the Agent is provided with a copy of any notification given to the CSD.

7. Right to Act on Behalf of a Bondholder

- (a) If any person other than a Bondholder wishes to exercise any rights under the Finance Documents, it must obtain a power of attorney or other proof of authorisation from the Bondholder or a successive, coherent chain of powers of attorney or proofs of authorisation starting with the Bondholder and authorising such person.
- (b) A Bondholder may issue one or several powers of attorney to third parties to represent it in relation to some or all of the Bonds held by it. Any such representative may act independently under the Finance Documents in relation to the Bonds for which such representative is entitled to represent the Bondholder.
- (c) The Agent shall only have to examine the face of a power of attorney or other proof of authorisation that has been provided to it pursuant to Clause 7(b) and may assume that it has been duly authorised, is valid, has not been revoked or superseded and that it is in full force and effect, unless otherwise is apparent from its face.

8. Payments in Respect of the Bonds

- (a) The Issuer will unconditionally make available to or to the order of the Agent and/or the Paying Agent all amounts due on each Interest Payment Date pursuant to the terms of these Terms and Conditions at such times and to such accounts as specified by the Agent and/or the Paying Agent in advance of each Payment Date or when other payments are due and payable pursuant to these Terms and Conditions.
- (b) Any payment or repayment under the Finance Documents shall be made to such person who is registered as a Bondholder on a Securities Account on the Relevant Record Date immediately preceding the relevant payment date, by crediting the relevant amount to the bank account nominated by each Bondholder in connection with its Securities Account in the CSD.
- (c) If a Bondholder has registered, through an Account Operator, that principal and interest shall be deposited in a certain bank account, such deposits will be effected by the Paying Agent on the relevant payment date. In other cases, payments will be transferred by the Paying Agent to the Bondholder at the address registered with the

CSD on the relevant Record Date. Should the Paying Agent, due to a delay on behalf of the Issuer or some other obstacle, not be able to effect the payment of amounts according to the aforesaid, the Paying Agent will pay such amount to the relevant Bondholder being registered as such on the relevant Record Date as soon as possible after such obstacle has been removed.

- (d) If, due to any obstacle for the CSD or the Paying Agent, the Issuer cannot make a payment or repayment, such payment or repayment may be postponed until the obstacle has been removed. Interest shall accrue in accordance with Clause 9(c) during such postponement.
- (e) If payment or repayment is made in accordance with this Clause 8, the Issuer and the Paying Agent shall be deemed to have fulfilled their obligation to pay, irrespective of whether such payment was made to a person not entitled to receive such amount.
- (f) If the Issuer is required to withhold any tax from any payment in respect of the Bonds under the Finance Documents:
 - (i) the amount of the payment due from the Issuer will be increased to such amount which is necessary to ensure that the Bondholders or the Agent, as the case may be, receive a net amount which is (after making the required withholding) equal to the payment which would have been received if no withholding had been required; and
 - (ii) at the request of the Agent, the Issuer will deliver to the Agent evidence that the required tax deduction or withholding has been made.
- (g) Any public fees levied on the trade of Bonds in the secondary market shall be paid by the Bondholders, unless otherwise provided by law or regulation, and the Issuer shall not be responsible for reimbursing any such fees.
- (h) Any specific payment instructions, including foreign exchange bank account details, to be connected to the Bondholder's account in the CSD must be provided by the relevant Bondholder to the Paying Agent (through its account manager in the CSD) within five Business Days prior to a Payment Date. Depending on any currency exchange settlement agreements between each Bondholder's bank and the Paying Agent, and opening hours of the receiving bank, cash settlement may be delayed, and payment shall be deemed to have been made once the cash settlement has taken place, provided, however, that no default interest or other penalty shall accrue for the account of the Issuer for such delay.

9. Interest

- (a) Each Initial Bond carries Interest at the Interest Rate applied to the Nominal Amount from (and including) the First Issue Date up to (but excluding) the relevant Redemption Date. Any Subsequent Bond will carry Interest at the Interest Rate applied to the Nominal Amount from (and including) the Interest Payment Date falling immediately prior to its issuance (or the First Issue Date if there is no such Interest Payment Date) up to (but excluding) the relevant Redemption Date.

- (b) Interest accrues during an Interest Period. Payment of Interest in respect of the Bonds shall be made to the Bondholders on each Interest Payment Date for the preceding Interest Period.
- (c) Interest shall be calculated on the basis of the actual number of days in the Interest Period in respect of which payment is being made divided by 360 (actual/360-days basis).
- (d) If the Issuer fails to pay any amount payable by it under the Finance Documents on its due date, default interest shall accrue on the overdue amount from (and including) the due date up to (but excluding) the date of actual payment at a rate which is two hundred (200) basis points higher than the Interest Rate for such Interest Period. Accrued default interest shall not be capitalised. No default interest shall accrue where the failure to pay was solely attributable to the Agent, the Paying Agent or the CSD, in which case the Interest Rate shall apply instead.

10. Redemption and Repurchase of the Bonds

10.1 Redemption at maturity

The Issuer shall redeem all, but not only some, of the outstanding Bonds in full on the Final Maturity Date with an amount per Bond equal to the Nominal Amount together with accrued but unpaid Interest. If the Final Maturity Date is not a Business Day, then the redemption shall occur on the first following Business Day.

10.2 Issuer's purchase of Bonds

Each Group Company may at any time purchase Bonds, provided that any Bond purchased by a Group Company (other than the Issuer) will promptly be surrendered to the Issuer for cancellation. Bonds held by the Issuer may at the Issuer's discretion be retained, sold or cancelled.

10.3 Voluntary Total Redemption

- (a) The Issuer may redeem all, but not only some, of the outstanding Bonds in full with an amount per Bond equal to the Call Option Amount or the Make Whole Amount (as applicable) together with accrued but unpaid Interest.
- (b) Redemption in accordance with Clause 10.3(a) shall be made by the Issuer giving not less than fifteen (15) Business Days' notice prior to the relevant Redemption Date to the Bondholders, the Paying Agent and the Agent and in accordance with the instructions of the Issuer, in each case calculated from the effective date of the notice. The notice from the Issuer shall specify the Redemption Date and also the Record Date on which a person shall be registered as a Bondholder to receive the amounts due on such Redemption Date. Any such notice is irrevocable and, upon expiry of such notice, the Issuer is bound to redeem the Bonds in full with the applicable amounts.

10.4 Voluntary Partial Redemption

- (a) The Issuer may on one occasion during each 12 month period commencing 12 months after the First Issue Date repay up to 10.00 per cent. of the total Nominal Amount in which case all outstanding Bonds shall be partially redeemed by way of *pro rata*

payments to the Bondholders in accordance with the applicable regulations of the CSD (the number of Bonds to be redeemed from each Bondholder shall be rounded down to the highest number of Bonds held by such Bondholder dividable with the relevant percentage to be redeemed).

- (b) The redemption price per Bond shall be an amount equal to 102.00 per cent. of the redeemed outstanding Nominal Amount plus accrued but unpaid interest on the redeemed amount.
- (c) Following a voluntary partial redemption in accordance with the terms set out above, the Issuer may not, at any time, issue any Subsequent Bonds.

10.5 Mandatory Repurchase due to a Change of Control Event or a De-listing Event

- (a) Upon a Change of Control Event or a De-listing Event occurring, each Bondholder shall have the right to request that all, or only some, of its Bonds be repurchased at a price per Bond equal to 101.00 per cent. of the Nominal Amount together with accrued but unpaid Interest, during a period of sixty (60) Business Days following a notice from the Issuer of the Change of Control Event or De-listing Event pursuant to Clause 11.1(b) (after which time period such right shall lapse).
- (b) The notice from the Issuer pursuant to Clause 11.1(b) shall specify the repurchase date and include instructions about the actions that a Bondholder needs to take if it wants Bonds held by it to be repurchased. If a Bondholder has so requested, and acted in accordance with the instructions in the notice from the Issuer, the Issuer shall repurchase the relevant Bonds and the repurchase amount shall fall due on the repurchase date specified in the notice given by the Issuer pursuant to Clause 11.1(b). The repurchase date must fall no later than twenty (20) Business Days after the end of the period referred to in Clause 10.5(a).
- (c) No repurchase of Bonds pursuant to this Clause 10.5 shall be required if the Issuer has given notice of a redemption pursuant to Clause 10.3 (*Voluntary Total Redemption*) provided that such redemption is duly exercised.

10.6 General

- (a) The Issuer shall comply with the requirements of any applicable securities laws or regulations in connection with the repurchase of Bonds. To the extent that the provisions of such laws and regulations conflict with the provisions in this Clause 10, the Issuer shall comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this Clause 10 by virtue of the conflict.
- (b) Any Bonds repurchased by the Issuer pursuant to this Clause 10 may at the Issuer's discretion be retained, sold or cancelled.

11. Information to Bondholders

11.1 Information from the Issuer

- (a) The Issuer shall make the following information available in the English language to the Bondholders by publication on the website of the Issuer:

- (i) as soon as the same become available, but in any event within four (4) months after the end of each financial year, the annual audited consolidated financial statements of the Group and the annual audited unconsolidated financial statements of the Issuer, including a profit and loss account, a balance sheet, a cash flow statement and management commentary or report from the Issuer's board of directors;
 - (ii) as soon as the same become available, but in any event within two (2) months after the end of each quarter of its financial year, the quarterly interim unaudited consolidated reports of the Group and the quarterly interim unaudited unconsolidated reports of the Issuer, including a profit and loss account, a balance sheet, a cash flow statement and management commentary or report from the Issuer's board of directors;
 - (iii) the year-end report for such period; and
 - (iv) any other information required by the Swedish Securities Markets Act (*Sw. lag (2007:582) om värdepappersmarknaden*), Regulation No 596/2014 on market abuse (*Market Abuse Regulation*), as applicable and the rules and regulations of the Regulated Market on which the Bonds are listed.
- (b) The Issuer shall immediately notify the Bondholders and the Agent when the Issuer is or becomes aware of the occurrence of a Change of Control Event or a De-listing Event.
- (c) When the financial statements and other information are made available the Bondholders pursuant to paragraph (a) above, the Issuer shall send copies of such financial statements and other information to the Agent.
- (d) The Issuer shall:
 - (i) supply to the Agent, with each set of its financial statements, delivered pursuant to paragraph (a)(ii) above, for a period ending on a Reference Date, a Compliance Certificate setting out (in reasonable detail) computations as to compliance with the Maintenance Test as at the relevant Reference Date;
 - (ii) supply to the Agent, within twenty (20) Business Days from the Agent's request a Compliance Certificate which shall contain computations as to the relevant test requested by the Agent.
- (e) The first Compliance Certificate to be delivered by the Issuer in accordance with paragraph (d)(i) and, if applicable, (ii) above shall be delivered by the Issuer to the Agent for the period ending on the Reference Date falling on 31 December 2016.
- (f) The Issuer shall immediately notify the Agent (with full particulars) when the Issuer is or becomes aware of the occurrence of any event or circumstance which constitutes an Event of Default, or any event or circumstance which would (with the expiry of a grace period, the giving of notice, the making of any determination or any combination of any of the foregoing) constitute an Event of Default, and shall provide the Agent with such further information as it may reasonably request in writing following receipt of such notice. Should the Agent not receive such information, the Agent is entitled to assume that no such event or circumstance exists or can be expected to occur, provided that the Agent does not have actual knowledge of such event or circumstance.

- (g) The Issuer is only obliged to inform the Agent according to this Clause 11.1 if informing the Agent would not conflict with any applicable laws or, when the Bonds are listed, the Issuer's registration contract with the Regulated Market. If such a conflict would exist pursuant to the listing contract with the Regulated Market or otherwise, the Issuer shall however be obliged to either seek approval from the Regulated Market or undertake other reasonable measures, including entering into a non-disclosure agreement with the Agent, in order to be able to timely inform the Agent according to this Clause 11.1.
- (h) When and for as long as the Bonds are listed, the Issuer shall also make the information set out in paragraph 11.1(a) above available by way of press releases.

11.2 Information from the Agent

Subject to restrictions of any applicable law and regulation, the Agent is entitled to disclose to the Bondholders any event or circumstance directly or indirectly relating to the Issuer or the Bonds. Notwithstanding the foregoing, the Agent may if it considers it to be beneficial to the interests of the Bondholders delay disclosure or refrain from disclosing certain information other than in respect of an Event of Default that has occurred and is continuing.

11.3 Information from the Bondholders

Upon request by a Bondholder, the Agent shall promptly distribute to the Bondholders any information from such Bondholder which relates to the Bonds. The Agent may require that the requesting Bondholder reimburses any costs or expenses incurred, or to be incurred, by the Agent in doing so (including a reasonable fee for the work of the Agent) before any such information is distributed.

11.4 Publication of Finance Documents

- (a) The latest version of these Terms and Conditions (including any document amending these Terms and Conditions) shall be available on the websites of the Issuer and the Agent.
- (b) The latest versions of the other Finance Documents shall be available to the Bondholders at the office of the Agent during normal business hours.

12. Maintenance Tests

The Issuer shall at all times procure that for each Reference Period, the financial covenants specified below are met:

- (a) the ratio of Equity to Total Assets shall not be lower than 25 per cent.;
- (b) the ratio of Interest Bearing Debt to EBITDA for the Reference Period shall not exceed 3.5x;
- (c) the ratio of Interest Bearing Debt and Aircraft Lease Liabilities to EBITDAR for the Reference Period shall not exceed 4.0x;
- (d) Cash and Cash Equivalents of the Group shall cover all Finance Charges falling due in the next six months thereafter; and

- (e) Issuer's Cash must never be less than USD 50,000,000.

The Maintenance Tests shall be reported quarterly on the basis of the Financial Report for the period covered by the relevant Reference Date on the basis of the Compliance Certificate delivered in connection therewith.

13. General Undertakings

13.1 General

The Issuer undertakes to (and shall, where applicable, procure that each other Group Company will) comply with the undertakings set out in this Clause 13 for as long as any Bonds remain outstanding.

13.2 Distributions

- (a) The Issuer shall not, and shall procure that none of its Subsidiaries will:
- (i) pay any dividend in respect of its shares;
 - (ii) repurchase any of its own shares;
 - (iii) redeem or reduce its share capital or other restricted equity with repayment to shareholders;
 - (iv) grant any loans except to Group Companies (other than as permitted pursuant to Clause 13.10 (*Restrictions on loans out*) below; or
 - (v) make any other similar distribution or transfers of value to the Issuer's or its Subsidiaries', direct and indirect shareholders or the Affiliates of such direct and indirect shareholders (items (i)-(v) above are together and individually referred to as a "**Restricted Payment**"), provided however that any such Restricted Payment can be made by any of the Issuer's Subsidiaries if such Restricted Payment is made to the Issuer or any of the wholly-owned Subsidiaries and, if made by a Subsidiary which is not directly or indirectly wholly-owned by the Issuer, is made on a *pro rata* basis.

Notwithstanding the above, a Restricted Payment may be made by the Issuer, if at the time of the payment:

- (vi) no Event of Default is outstanding or would occur when making the relevant Restricted Payment; and
- (vii) the aggregate amount of all Restricted Payments of the Group in any fiscal year (including the Restricted Payment in question but excluding the Restricted Payment referred to in (iii) below) does not exceed forty (40) per cent. of the Group's consolidated net profit for the previous fiscal year; and
- (viii) notwithstanding any payment made under (ii) above, the Restricted Payment concerns a repurchase of shares in the Group in a maximum amount of USD 20,000,000 in any fiscal year.

13.3 Listing of the Bonds

The Issuer shall ensure that the Bonds are listed at the corporate bond list on Nasdaq Stockholm not later than 60 calendar days after the First Issue Date and with an intention to complete such listing within 30 calendar days after the First Issue Date. Once the Bonds are listed on Nasdaq Stockholm, the Issuer shall ensure that the Bonds continue being listed on Nasdaq Stockholm for as long as any Bond is outstanding (however, taking into account the rules and regulations of Nasdaq Stockholm and the CSD (as amended from time to time) preventing trading in the Bonds in close connection to their redemption).

13.4 Nature of Business

The Issuer shall procure that no substantial change is made to the general nature of the business carried on by the Group as of the Issue Date if such substantial change would have a Material Adverse effect.

13.5 Financial Indebtedness

The Issuer shall not, and shall procure that none of its Subsidiaries will, incur, prolong or renew any additional Financial Indebtedness, provided however that the Issuer and its Subsidiaries have a right to incur Financial Indebtedness that constitutes Permitted Debt, if, other than in relation to Permitted Debt set out under paragraphs (d) and (h) in the definition of Permitted Debt, such Permitted Debt is incurred on market terms (or better).

13.6 Disposal of Assets

The Issuer shall not, and shall procure that no Subsidiary, sell or otherwise dispose of shares in any Subsidiary or of all or substantially all of its or any Subsidiary's assets or operations to any person not being the Issuer or any of its wholly-owned Subsidiaries, unless the transaction is carried out at fair market value and on terms and conditions customary for such transaction and provided that it does not have a Material Adverse Effect. The Issuer shall notify the Agent of any such transaction and, upon request by the Agent, provide the Agent with any information relating to the transaction which the Agent deems necessary (acting reasonably).

13.7 Clean Down Period

The Issuer shall procure that during each calendar year there shall be a period of five (5) consecutive days during which the amount outstanding under the Working Capital Facility, less cash and cash equivalents of the Group, amounts to zero (0) or less. Not less than six (6) months shall elapse between two such periods.

13.8 Negative Pledge

- (a) The Issuer shall not, and shall procure that none of its Subsidiaries, provide, prolong or renew any security over any of its/their assets (present or future) to secure any loan or other indebtedness, provided however that the Group Companies have a right to provide, prolong and renew any Permitted Security.
- (b) Notwithstanding (a) above and the definition of Permitted Security, the Issuer undertakes to keep Fixed Assets with book value, according to the most recent Financial Report, amounting to a minimum of 115 per cent. of the outstanding principal of all Market Loans at any time, unpledged; and

- (c) Notwithstanding (a) above and the definition of Permitted Security, the share capital of the Group Companies may not be pledged.

13.9 Compliance with laws

The Issuer shall, and shall procure that the Subsidiaries:

- (a) comply in all material respects with all laws and regulations applicable from time to time; and
- (b) obtain, maintain and in all material respects comply with, the terms and conditions of any authorisation, approval, license or other permit required for the business carried out by the respective Group Company.

13.10 Restrictions on loans out

The Issuer shall not, and shall procure that none of the Issuer's Subsidiaries will, extend any loans, grant any guarantees or extend any other financial assistance other than:

- (a) to Group Companies;
- (b) under any Advanced Purchase Agreement; or
- (c) in the ordinary course of business.

13.11 Dealings with Related Parties

The Issuer shall, and shall procure that its Subsidiaries, conduct all dealings with the direct and indirect shareholders of the Group Companies (excluding other Group Companies) and/or any Affiliates of such direct and indirect shareholders at arm's length terms.

14. Events of Default and Acceleration of the Bonds

Each of the events or circumstances set out in this Clause 14 (other than Clause 14.10 (*Acceleration of the Bonds*)) is an Event of Default.

14.1 Non-Payment

The Issuer fails to pay an amount on the date it is due in accordance with the Finance Documents unless its failure to pay is caused by administrative or technical error and payment is made within five (5) Business Days of the due date.

14.2 Other Obligations

The Issuer does not comply with its obligations under the Finance Documents, in any other way than as set out in Clause 14.1 (*Non-Payment*), provided that the Agent has requested the Issuer in writing to remedy such failure and the Issuer has not remedied the failure within 15 Business Days from such request (if the failure or violation is not capable of being remedied, the Agent may declare the Bonds due and payable without such prior written request).

14.3 Cross-Acceleration

Any Financial Indebtedness of a Material Group Company is not paid when due as extended by any originally applicable grace period, or is declared to be due and payable prior to its specified maturity as a result of an event of default (however described), provided that no Event of Default will occur under this Section (c) if the aggregate amount of Financial Indebtedness that has fallen due is less than USD 10,000,000 and provided that it does not apply to any Financial Indebtedness owed to a Group Company.

14.4 Insolvency

- (a) Any Material Group Company is unable or admits inability to pay its debts as they fall due or is declared to be unable to pay its debts under applicable law, suspends making payments on its debts generally or, by reason of actual or anticipated financial difficulties, commences negotiations with its creditors generally (except for holders of Bonds) with a view to rescheduling its Financial Indebtedness; or
- (b) a moratorium is declared in respect of the Financial Indebtedness of any Material Group Company.

14.5 Insolvency Proceedings

Any corporate action, legal proceedings or other procedures are taken (other than (i) proceedings or petitions which are being disputed in good faith and are discharged, stayed or dismissed within 60 days of commencement or, if earlier, the date on which it is advertised and (ii), in relation to Subsidiaries, solvent liquidations) in relation to:

- (a) the suspension of payments, winding-up, dissolution, administration or reorganisation (by way of voluntary agreement, scheme of arrangement or otherwise) of any Material Group Company; and
- (b) the appointment of a liquidator, receiver, administrator, administrative receiver, compulsory manager or other similar officer in respect of any Material Group Company or any of its assets or any analogous procedure or step is taken in any jurisdiction in respect of any Material Group Company.

14.6 Mergers and Demergers

A decision is made that Icelandair Ehf. shall be demerged or merged if such merger or demerger is likely to have a Material Adverse Effect, provided that a merger involving the Issuer, where the Issuer is not the surviving entity, shall always be considered an Event of Default and provided that the Issuer may not be demerged.

14.7 Creditors' Process

Any expropriation, attachment, sequestration, distress or execution or any analogous process in any jurisdiction affects any asset or assets of any Material Group Company having an aggregate value of an amount equal to or exceeding USD 10,000,000 and is not discharged within 60 days.

14.8 Impossibility or Illegality

It is or becomes impossible or unlawful for the Issuer to fulfil or perform any of the provisions of the Finance Documents or if the obligations under the Finance Documents are not, or cease to be, legal, valid, binding and enforceable.

14.9 Continuation of the Business

The Issuer or any other Material Group Company ceases to carry on its business, except if due to (i) a merger or demerger permitted under Clause 14.6 (*Mergers and Demergers*), or (ii) a disposal permitted under Clause 13.6 (*Disposal of Assets*) if such discontinuation is likely to have a Material Adverse Effect.

14.10 Acceleration of the Bonds

- (a) If an Event of Default has occurred and is continuing, the Agent is entitled to, on behalf of the Bondholders (i) by notice to the Issuer, declare all, but not only some, of the Bonds due for payment together with any other amounts payable under the Finance Documents, immediately or at such later date as the Agent determines (but such date may not fall after the Final Maturity Date), and (ii) exercise any or all of its rights, remedies, powers and discretions under the Finance Documents.
- (b) The Agent may not accelerate the Bonds in accordance with this Clause 14 by reference to a specific Event of Default if it is no longer continuing or if it has been decided, on a Bondholders' Meeting or by way of a Written Procedure, to waive such Event of Default (temporarily or permanently).
- (c) The Agent shall notify the Bondholders of an Event of Default within five (5) Business Days of the date on which the Agent received actual knowledge of that an Event of Default has occurred and is continuing. The Agent shall, within twenty (20) Business Days of the date on which the Agent received actual knowledge of that an Event of Default has occurred and is continuing, decide if the Bonds shall be accelerated. If the Agent decides not to accelerate the Bonds, the Agent shall promptly seek instructions from the Bondholders in accordance with Clause 16 (*Decisions by Bondholders*). The Agent shall always be entitled to take the time necessary to consider whether an occurred event constitutes an Event of Default.
- (d) If the Bondholders (in accordance with these Terms and Conditions) instruct the Agent to accelerate the Bonds, the Agent shall promptly declare the Bonds due and payable and take such actions as, in the opinion of the Agent, may be necessary or desirable to enforce the rights of the Bondholders under the Finance Documents, unless the relevant Event of Default is no longer continuing.
- (e) If the right to accelerate the Bonds is based upon a decision of a court of law or a government authority, it is not necessary that the decision has become enforceable under law or that the period of appeal has expired in order for cause of acceleration to be deemed to exist.
- (f) In the event of an acceleration of the Bonds in accordance with this Clause 14, the Issuer shall redeem all Bonds with an amount equal to the redemption amount specified in Clause 10.3 (*Voluntary Total Redemption*), as applicable considering when the acceleration occurs and, shall for the non-call period (until the First Call Date) be in be the price set out in paragraph (b) of the definition of Call Option Amount above.

15. Distribution of Proceeds

- (a) All payments by the Issuer relating to the Bonds and the Finance Documents following an acceleration of the Bonds in accordance with Clause 14 (*Events of Default and Acceleration of the Bonds*) shall be distributed in the following order of priority, in accordance with the instructions of the Agent:
- (i) first, in or towards payment *pro rata* of (i) all unpaid fees, costs, expenses and indemnities payable by the Issuer to the Agent in accordance with the Agency Agreement (other than any indemnity given for liability against the Bondholders), (ii) other costs, expenses and indemnities relating to the acceleration of the Bonds, or the protection of the Bondholders' rights as may have been incurred by the Agent, (iii) any costs incurred by the Agent for external experts that have not been reimbursed by the Issuer in accordance with Clause 20.2(g) or paid to the Agent, and (iv) any costs and expenses incurred by the Agent in relation to a Bondholders' Meeting or a Written Procedure that have not been reimbursed by the Issuer in accordance with Clause 16(c);
 - (ii) secondly, in or towards payment *pro rata* of accrued but unpaid Interest under the Bonds (Interest due on an earlier Interest Payment Date to be paid before any Interest due on a later Interest Payment Date);
 - (iii) thirdly, in or towards payment *pro rata* of any unpaid principal under the Bonds; and
 - (iv) fourthly, in or towards payment *pro rata* of any other costs or outstanding amounts unpaid under the Finance Documents.

Any excess funds after the application of proceeds in accordance with paragraphs (i) to (iv) above shall be paid to the Issuer.

- (b) Funds that the Agent receives (directly or indirectly) in connection with the acceleration of the Bonds shall constitute escrow funds (*Sw. redovisningsmedel*) and must be promptly turned over to the Agent to be applied in accordance with this Clause 15 as soon as reasonably practicable.

16. Decisions by Bondholders

- (a) Any decision by the Bondholders on a matter relating to the Finance Documents shall (at the option of the Agent) be dealt with at a Bondholders' Meeting or by way of a Written Procedure.
- (b) Any request from the Issuer or a Bondholder (or Bondholders) representing at least ten (10) per cent. of the Adjusted Nominal Amount (such request may only be validly made by a person who is a Bondholder on the Business Day immediately following the day on which the request is received by the Agent and shall, if made by several Bondholders, be made by them jointly) for a decision by the Bondholders on a matter relating to the Finance Documents shall be directed to the Agent and dealt with at a Bondholders' Meeting or by way a Written Procedure, as determined by the Agent. The person requesting the decision may suggest the form for decision making, but if it is in the Agent's opinion more appropriate that a matter is dealt with at a

Bondholders' Meeting than by way of a Written Procedure, it shall be dealt with at a Bondholders' Meeting.

- (c) The Agent may refrain from convening a Bondholders' Meeting or instigating a Written Procedure if (i) the suggested decision must be approved by any person in addition to the Bondholders and such person has informed the Agent that an approval will not be given, or (ii) the suggested decision is not in accordance with applicable laws.
- (d) Should the Agent not convene a Bondholders' Meeting or instigate a Written Procedure in accordance with these Terms and Conditions, without paragraph (c) above being applicable, the Issuer or the Bondholder(s) requesting a decision by the Bondholders may convene such Bondholders' Meeting or instigate such Written Procedure, as the case may be, instead.
- (e) Should the Issuer want to replace the Agent, it may (i) convene a Bondholders' Meeting in accordance with Clause 17(a) or (ii) instigate a Written Procedure by sending communication in accordance with Clause 18(a), in both cases with a copy to the Agent. After a request from the Bondholders pursuant to Clause 20.4(a), the Issuer shall no later than ten (10) Business Days after receipt of such request (or such later date as may be necessary for technical or administrative reasons) convene a Bondholders' Meeting in accordance with Clause 17(a). The Issuer shall inform the Agent before a notice for a Bondholders' Meeting or communication relating to a Written Procedure where the Agent is proposed to be replaced is sent and shall, on the request of the Agent, append information from the Agent together with the notice or the communication.
- (f) Only a person who is, or who has been provided with a power of attorney pursuant to Clause 7 (*Right to Act on Behalf of a Bondholder*) from a person who is, registered as a Bondholder:
 - (i) on the Record Date prior to the date of the Bondholders' Meeting, in respect of a Bondholders' Meeting, or
 - (ii) on the Business Day specified in the communication pursuant to Clause 18(c), in respect of a Written Procedure,may exercise voting rights as a Bondholder at such Bondholders' Meeting or in such Written Procedure, provided that the relevant Bonds are included in the definition of Adjusted Nominal Amount.
- (g) The following matters shall require the consent of Bondholders representing at least sixty-six and two thirds ($66 \frac{2}{3}$) per cent. of the Adjusted Nominal Amount for which Bondholders are voting at a Bondholders' Meeting or for which Bondholders reply in a Written Procedure in accordance with the instructions given pursuant to Clause 18(c):
 - (i) a change to the terms of any of Clauses 2(a), 2(f) and 2(f);
 - (ii) a change to the terms for the distribution of proceeds set out in Clause 15 (*Distribution of Proceeds*)
 - (iii) a change to the terms dealing with the requirements for Bondholders' consent set out in this Clause 16;

- (iv) a change to the definition "Interest Payment Date" or the definition "Interest Rate" set out in Clause 1.1 (*Definitions*);
 - (v) an extension of the tenor of the Bonds or any delay of the due date for payment of any principal or interest on the Bonds;
 - (vi) a mandatory exchange of the Bonds for other securities;
 - (vii) early redemption of the Bonds, other than upon an acceleration of the Bonds pursuant to Clause 14 (*Events of Default and Acceleration of the Bonds*) or as otherwise permitted or required by these Terms and Conditions.
- (h) Any matter not covered by Clause 16(g) shall require the consent of Bondholders representing more than 50 per cent. of the Adjusted Nominal Amount for which Bondholders are voting at a Bondholders' Meeting or for which Bondholders reply in a Written Procedure in accordance with the instructions given pursuant to Clause 18(c). This includes, but is not limited to, any amendment to, or waiver of, the terms of any Finance Document that does not require a higher majority (other than an amendment permitted pursuant to Clause 19(a)(i), (19(a)(ii)) or 19(a)(iii).
- (i) Quorum at a Bondholders' Meeting or in respect of a Written Procedure only exists if a Bondholder (or Bondholders) representing at least twenty (20) per cent. of the Adjusted Nominal Amount:
- (i) if at a Bondholders' Meeting, attend the meeting in person or by telephone conference (or appear through duly authorised representatives); or
 - (ii) if in respect of a Written Procedure, reply to the request.
- If a quorum exists for some but not all of the matters to be dealt with at a Bondholders' Meeting or by a Written Procedure, decisions may be taken in the matters for which a quorum exists.
- (j) If a quorum does not exist at a Bondholders' Meeting or in respect of a Written Procedure, the Agent or the Issuer shall convene a second Bondholders' Meeting (in accordance with Clause 17(a)) or initiate a second Written Procedure (in accordance with Clause 18(a)), as the case may be, provided that the relevant proposal has not been withdrawn by the person(s) who initiated the procedure for Bondholders' consent. The quorum requirement in Clause 16(i) shall not apply to such second Bondholders' Meeting or Written Procedure.
- (k) Any decision which extends or increases the obligations of the Issuer or the Agent, or limits, reduces or extinguishes the rights or benefits of the Issuer or the Agent, under the Finance Documents shall be subject to the Issuer's or the Agent's consent, as applicable.
- (l) A Bondholder holding more than one Bond need not use all its votes or cast all the votes to which it is entitled in the same way and may in its discretion use or cast some of its votes only.
- (m) The Issuer may not, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Bondholder for or as inducement to any consent under these Terms and Conditions, unless such consideration is offered to all Bondholders that

consent at the relevant Bondholders' Meeting or in a Written Procedure within the time period stipulated for the consideration to be payable or the time period for replies in the Written Procedure, as the case may be.

- (n) A matter decided at a duly convened and held Bondholders' Meeting or by way of Written Procedure is binding on all Bondholders, irrespective of them being present or represented at the Bondholders' Meeting or responding in the Written Procedure. The Bondholders that have not adopted or voted for a decision shall not be liable for any damages that this may cause other Bondholders.
- (o) All reasonable costs and expenses incurred by the Issuer or the Agent for the purpose of convening a Bondholders' Meeting or for the purpose of carrying out a Written Procedure, including reasonable fees to the Agent, shall be paid by the Issuer.
- (p) If a decision shall be taken by the Bondholders on a matter relating to the Finance Documents, the Issuer shall promptly at the request of the Agent provide the Agent with a certificate specifying the number of Bonds owned by Group Companies, irrespective of whether such person is directly registered as owner of such Bonds. The Agent shall not be responsible for the accuracy of such certificate or otherwise be responsible to determine whether a Bond is owned by a Group Company.
- (q) Information about decisions taken at a Bondholders' Meeting or by way of a Written Procedure shall promptly be sent by notice to the Bondholders and published on the websites of the Issuer and the Agent, provided that a failure to do so shall not invalidate any decision made or voting result achieved. The minutes from the relevant Bondholders' Meeting or Written Procedure shall at the request of a Bondholder be sent to it by the Issuer or the Agent, as applicable.

17. Bondholders' Meeting

- (a) The Agent shall convene a Bondholders' Meeting by sending a notice thereof to each Bondholder no later than five (5) Business Days after receipt of a request from the Issuer or the Bondholder(s) (or such later date as may be necessary for technical or administrative reasons).
- (b) Should the Issuer want to replace the Agent, it may convene a Bondholders' Meeting in accordance with Clause 17(a) with a copy to the Agent. After a request from the Bondholders pursuant to Clause 20.4(c), the Issuer shall no later than five (5) Business Days after receipt of such request (or such later date as may be necessary for technical or administrative reasons) convene a Bondholders' Meeting in accordance with Clause 17(a).
- (c) The notice pursuant to Clause 17(a) shall include (i) time for the meeting, (ii) place for the meeting, (iii) agenda for the meeting (including each request for a decision by the Bondholders) and (iv) a form of power of attorney. Only matters that have been included in the notice may be resolved upon at the Bondholders' Meeting. Should prior notification by the Bondholders be required in order to attend the Bondholders' Meeting, such requirement shall be included in the notice.
- (d) The Bondholders' Meeting shall be held no earlier than ten (10) Business Days and no later than twenty (20) Business Days from the notice.

- (e) Without amending or varying these Terms and Conditions, the Agent may prescribe such further regulations regarding the convening and holding of a Bondholders' Meeting as the Agent may deem appropriate. Such regulations may include a possibility for Bondholders to vote without attending the meeting in person.

18. Written Procedure

- (a) The Agent shall instigate a Written Procedure no later than five (5) Business Days after receipt of a request from the Issuer or the Bondholder(s) (or such later date as may be necessary for technical or administrative reasons) by sending a communication to each such person who is registered as a Bondholder on the Business Day prior to the date on which the communication is sent.
- (b) Should the Issuer want to replace the Agent, it may send a communication in accordance with Clause 18(a) to each Bondholder with a copy to the Agent.
- (c) A communication pursuant to Clause 18(a) shall include (i) each request for a decision by the Bondholders, (ii) a description of the reasons for each request, (iii) a specification of the Business Day on which a person must be registered as a Bondholder in order to be entitled to exercise voting rights, (iv) instructions and directions on where to receive a form for replying to the request (such form to include an option to vote yes or no for each request) as well as a form of power of attorney, and (v) the stipulated time period within which the Bondholder must reply to the request (such time period to last at least fifteen (15) Business Days from the communication pursuant to Clause 18(a)). If the voting shall be made electronically, instructions for such voting shall be included in the communication.
- (d) When the requisite majority consents of the total Adjusted Nominal Amount pursuant to Clauses 16(g) and 16(g)(i) have been received in a Written Procedure, the relevant decision shall be deemed to be adopted pursuant to Clause 16(g) or 16(g)(i), as the case may be, even if the time period for replies in the Written Procedure has not yet expired.

19. Amendments and Waivers

- (a) The Issuer and the Agent (acting on behalf of the Bondholders) may agree to amend the Finance Documents or waive any provision in a Finance Document, provided that:
 - (i) such amendment or waiver is not detrimental to the interest of the Bondholders as a group, or is made solely for the purpose of rectifying obvious errors and mistakes;
 - (ii) such amendment or waiver is required by applicable law, a court ruling or a decision by a relevant authority;
 - (iii) such amendment will not negatively affect the Bondholders or the Agent and is necessary for the purpose of the listing of the Bonds pursuant to Clause 13.3 (*Listing of the Bonds*); or
 - (iv) such amendment or waiver has been duly approved by the Bondholders in accordance with Clause 16 (*Decisions by Bondholders*).

- (b) The consent of the Bondholders is not necessary to approve the particular form of any amendment or waiver to the Finance Documents. It is sufficient if such consent approves the substance of the amendment or waiver.
- (c) The Agent shall promptly notify the Bondholders of any amendments or waivers made in accordance with Clause 19(a), setting out the date from which the amendment or waiver will be effective, and ensure that any amendments to the Finance Documents are published in the manner stipulated in Clause 11.4 (*Publication of Finance Documents*). The Issuer shall ensure that any amendments to the Finance Documents are duly registered with the CSD and each other relevant organisation or authority.
- (d) An amendment or waiver to the Finance Documents shall take effect on the date determined by the Bondholders Meeting, in the Written Procedure or by the Agent, as the case may be.

20. Appointment and Replacement of the Agent

20.1 Appointment of Agent

- (a) By subscribing for Bonds, each initial Bondholder appoints the Agent to act as its agent in all matters relating to the Bonds and the Finance Documents, and authorises the Agent to act on its behalf (without first having to obtain its consent, unless such consent is specifically required by these Terms and Conditions) in any legal or arbitration proceedings relating to the Bonds held by such Bondholder.
- (b) By acquiring Bonds, each subsequent Bondholder confirms the appointment and authorisation for the Agent to act on its behalf as set out in Clause 20.1(a).
- (c) Each Bondholder shall immediately upon request provide the Agent with any such documents, including a written power of attorney (in form and substance satisfactory to the Agent), that the Agent deems necessary for the purpose of exercising its rights and/or carrying out its duties under the Finance Documents. The Agent is under no obligation to represent a Bondholder which does not comply with such request.
- (d) The Issuer shall promptly upon request provide the Agent with any documents and other assistance (in form and substance satisfactory to the Agent), that the Agent deems necessary for the purpose of exercising its rights and/or carrying out its duties under the Finance Documents.
- (e) The Agent is entitled to fees for its work and to be indemnified for costs, losses and liabilities on the terms set out in the Finance Documents and the Agency Agreement and the Agent's obligations as Agent under the Finance Documents are conditioned upon the due payment of such fees and indemnifications.
- (f) The Agent may only act as agent or trustee for several issues of securities issued by or relating to the Issuer and other Group Companies where these issues are ranked *pari passu* and do not otherwise entail any obvious conflicts of interest for the Agent.

20.2 Duties of the Agent

- (a) The Agent shall represent the Bondholders in accordance with the Finance Documents.

- (b) When acting in accordance with the Finance Documents, the Agent is always acting with binding effect on behalf of the Bondholders. The Agent shall carry out its duties under the Finance Documents in a reasonable, proficient and professional manner, with reasonable care and skill.
- (c) The Agent's duties under this Agreement are solely mechanical and administrative in nature and the Agent only acts in accordance with these Terms and Conditions and upon instructions from the Bondholders, unless otherwise set out in these Terms and Conditions. In particular, the Agent is not acting as an advisor (whether legal, financial or otherwise) to the Bondholders or any other person.
- (d) The Agent is not obligated to assess or monitor the financial condition of the Issuer or compliance by the Issuer of the terms of the Finance Documents unless to the extent expressly set out in the Terms and Conditions and the other Finance Documents, or to take any steps to ascertain whether any Event of Default has occurred. Until it has actual knowledge to the contrary, the Agent is entitled to assume that no Event of Default has occurred.
- (e) The Agent is entitled to delegate its duties to other professional parties, provided that such professional parties are selected with due care.
- (f) The Agent shall treat all Bondholders equally and, when acting pursuant to the Finance Documents, act with regard only to the interests of the Bondholders and shall not be required to have regard to the interests or to act upon or comply with any direction or request of any other person, other than as explicitly stated in the Finance Documents.
- (g) The Agent is entitled to engage external experts when carrying out its duties under the Finance Documents. The Issuer shall on demand by the Agent pay all reasonable costs for external experts engaged after the occurrence of an Event of Default, or for the purpose of investigating or considering (i) an event which the Agent reasonably believes is or may lead to an Event of Default or (ii) a matter relating to the Issuer which the Agent reasonably believes may be detrimental to the interests of the Bondholders under the Finance Documents. Any compensation for damages or other recoveries received by the Agent from external experts engaged by it for the purpose of carrying out its duties under the Finance Documents shall be distributed in accordance with Clause 15 (*Distribution of Proceeds*).
- (h) Notwithstanding any other provision of the Finance Documents to the contrary, the Agent is not obliged to do or omit to do anything if it would or might in its reasonable opinion constitute a breach of any law or regulation.
- (i) Unless it has actual knowledge to the contrary, the Agent may assume that all information provided by or on behalf of the Issuer (including by its advisors) is correct, true and complete in all aspects.
- (j) If in the Agent's reasonable opinion the cost, loss or liability which it may incur (including reasonable fees to the Agent) in complying with instructions of the Bondholders, or taking any action at its own initiative, will not be covered by the Issuer or the Bondholders (as applicable), the Agent may refrain from acting in accordance with such instructions, or taking such action, until it has received such indemnities (or adequate Security has been provided therefore) as it may reasonably require.

20.3 Limited liability for the Agent

- (a) The Agent will not be liable to the Bondholders for damage or loss caused by any action taken or omitted by it under or in connection with any Finance Document, unless directly caused by its negligence or wilful misconduct. The Agent shall never be responsible for indirect loss.
- (b) The Agent shall not be considered to have acted negligently if it has acted in accordance with advice from or opinions of reputable external experts addressed to the Agent or if the Agent has acted with reasonable care in a situation when the Agent considers that it is detrimental to the interests of the Bondholders to delay the action in order to first obtain instructions from the Bondholders.
- (c) The Agent shall not be liable for any delay (or any related consequences) in crediting an account with an amount required pursuant to the Finance Documents to be paid by the Agent to the Bondholders, provided that the Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Agent for that purpose.
- (d) The Agent shall have no liability to the Bondholders or the Issuer for damage caused by the Agent when acting in accordance with instructions of the Bondholders given to the Agent in accordance with Clause 16 (*Decisions by Bondholders*) or a demand by Bondholders given pursuant to Clause 14.10(a).
- (e) The Issuer is liable for, and shall indemnify the Agent fully in respect of, all losses, expenses and liabilities incurred by the Agent as a result of negligence by the Issuer (including its directors, management, officers, employees, agents and representatives) to fulfil its obligations under the Finance Document or otherwise towards the Agent.
- (f) The Agent is not liable for information provided to the Bondholders by or on behalf of the Issuer or by any other person.
- (g) Any liability towards the Issuer which is incurred by the Agent in acting under, or in relation to, the Finance Documents shall not be subject to set-off against the obligations of the Issuer to the Bondholders under the Finance Documents.

20.4 Replacement of the Agent

- (a) Subject to Clause 20.4(f), the Agent may resign by giving notice to the Issuer and the Bondholders, in which case the Bondholders shall appoint a successor Agent at a Bondholders' Meeting convened by the retiring Agent or by way of Written Procedure initiated by the retiring Agent.
- (b) Subject to Clause 20.4(f), if the Agent is Insolvent, the Agent shall be deemed to resign as Agent with immediate effect and the Issuer shall within ten (10) Business Days appoint a successor Agent which shall be an independent financial institution or other reputable company which regularly acts as agent under debt issuances.
- (c) A Bondholder (or Bondholders) representing at least ten (10) per cent. of the Adjusted Nominal Amount may, by notice to the Issuer (such notice may only be validly given

by a person who is a Bondholder on the Business Day immediately following the day on which the notice is received by the Issuer and shall, if given by several Bondholders, be given by them jointly), require that a Bondholders' Meeting is held for the purpose of dismissing the Agent and appointing a new Agent. The Issuer may, at a Bondholders' Meeting convened by it or by way of Written Procedure initiated by it, propose to the Bondholders that the Agent be dismissed and a new Agent appointed.

- (d) If the Bondholders have not appointed a successor Agent within ninety (90) days after (i) the earlier of the notice of resignation was given or the resignation otherwise took place or (ii) the Agent was dismissed through a decision by the Bondholders, the Issuer shall appoint a successor Agent which shall be an independent financial institution or other reputable company which regularly acts as agent under debt issuances.
- (e) The retiring Agent shall, at its own cost, make available to the successor Agent such documents and records and provide such assistance as the successor Agent may reasonably request for the purposes of performing its functions as Agent under the Finance Documents.
- (f) The Agent's resignation or dismissal shall only take effect upon the appointment of a successor Agent and acceptance by such successor Agent of such appointment and the execution of all necessary documentation to effectively substitute the retiring Agent.
- (g) Upon the appointment of a successor, the retiring Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of the Finance Documents and remain liable under the Finance Documents in respect of any action which it took or failed to take whilst acting as Agent. Its successor, the Issuer and each of the Bondholders shall have the same rights and obligations amongst themselves under the Finance Documents as they would have had if such successor had been the original Agent.
- (h) In the event that there is a change of the Agent in accordance with this Clause 20.4, the Issuer shall execute such documents and take such actions as the new Agent may reasonably require for the purpose of vesting in such new Agent the rights, powers and obligation of the Agent and releasing the retiring Agent from its further obligations under the Finance Documents and the Agency Agreement. Unless the Issuer and the new Agent agree otherwise, the new Agent shall be entitled to the same fees and the same indemnities as the retiring Agent.

21. Appointment and Replacement of the Paying Agent

- (a) The Issuer appoints the Paying Agent to manage certain specified tasks under these Terms and Conditions and in accordance with the legislation, rules and regulations applicable to and/or issued by the CSD and relating to the Bonds.
- (b) The Paying Agent may retire from its assignment or be dismissed by the Issuer, provided that the Issuer has approved that a commercial bank or securities institution approved by the CSD accedes as new Paying Agent at the same time as the old Paying Agent retires or is dismissed. If the Paying Agent is Insolvent, the Issuer shall immediately appoint a new Paying Agent, which shall replace the old Paying Agent as paying agent in accordance with these Terms and Conditions.

22. No Direct Actions by Bondholders

- (a) A Bondholder may not take any steps whatsoever against the Issuer to enforce or recover any amount due or owing to it pursuant to the Finance Documents, or to initiate, support or procure the winding-up, dissolution, liquidation, company reorganisation or bankruptcy of the Issuer in accordance with Icelandic law (or its equivalent in any other jurisdiction) in relation to any of the liabilities of the Issuer under the Finance Documents.
- (b) Clause 22(a) shall not apply if the Agent has been instructed by the Bondholders in accordance with these Terms and Conditions to take certain actions but is legally unable to take such actions.

23. Prescription

- (a) The right to receive repayment of the principal of the Bonds shall be prescribed and become void ten (10) years from the Redemption Date. The right to receive payment of interest (excluding any capitalised interest) shall be prescribed and become void three (3) years from the relevant due date for payment. The Issuer is entitled to any funds set aside for payments in respect of which the Bondholders' right to receive payment has been prescribed and has become void.
- (b) If a limitation period is duly interrupted in accordance with the Swedish Act on Limitations (*Sw. preskriptionslag (1981:130)*), a new limitation period of ten (10) years with respect to the right to receive repayment of the principal of the Bonds, and of three (3) years with respect to receive payment of interest (excluding capitalised interest) will commence, in both cases calculated from the date of interruption of the limitation period, as such date is determined pursuant to the provisions of the Swedish Act on Limitations.

24. Notices

- (a) Any notice or other communication to be made under or in connection with the Finance Documents:
 - (i) if to the Agent, shall be given at the address registered with the Swedish Companies Registration Office (*Sw. Bolagsverket*) on the Business Day prior to dispatch or, if sent by email by the Issuer, to the email address notified by the Agent to the Issuer from time to time;
 - (ii) if to the Issuer, to the following address:
 - (A) Reykjavik Airport, 101 Reykjavik, Iceland; or
 - (B) if sent by email by the Agent, to the email address notified by the Issuer to the Agent from time to time.
 - (iii) if to the Bondholders, shall be given by letter to their addresses as registered with the CSD on the Business Day prior to dispatch.
- (b) Any notice to the Bondholders shall also be published on the websites of the Issuer and the Agent.

- (c) Any notice or other communication made by one person to another under or in connection with the Finance Documents shall be sent by way of letter, or, if between the Issuer and the Agent, by email, and will only be effective three (3) Business Days after being deposited postage prepaid in an envelope addressed to the address specified in Clause 24(a) or, in case of email, when received in readable form by the email recipient.

25. Governing Law and Jurisdiction

- (a) These Terms and Conditions, and any non-contractual obligations arising out of or in connection therewith, shall be governed by and construed in accordance with the laws of Sweden.
- (b) The Issuer submits to the non-exclusive jurisdiction of the City Court of Stockholm (Sw. *Stockholms tingsrätt*).
- (c) Paragraphs (a) and (b) above shall not limit the right of the Agent (or the Bondholders, as applicable) to take proceedings against the Issuer in any court which may otherwise exercise jurisdiction over the Issuer or any of its assets.

We hereby certify that the above terms and conditions are binding upon ourselves.

Place:

Date:

For and on behalf of

Icelandair Group hf.

as Issuer

By:

Title:

We hereby undertake to act in accordance with the above terms and conditions to the extent they refer to us.

Place:

Date:

Nordic Trustee & Agency AB (publ)

as Agent

By:

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