

ARTICLES OF ASSOCIATION

FOR

**ICELANDAIR GROUP HF.**

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# 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 Reykjavíkurlflugvöllur, 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 1,000,000,000.
- 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 14 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, which ever 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 4.15 and **Error! Reference source not found.**

### **Agenda of the Annual General Meeting**

4.13 The following matters shall be addressed at annual general meetings:

1. The Board of Director's report on the Company's operations in the past year shall be presented.
2. Confirmation of annual accounts and decision on the handling of profit or loss of the financial year.
3. Decision on payments to board members.
4. Proposals of the Board of Directors regarding the remuneration policy.
5. Election of the Board of Directors in accordance with the provisions of Clause 5.
6. Election of auditor in accordance with the provisions of Clause 10.
7. Proposals from shareholders which shall be on the agenda according to the provisions of Clause 0, cf. paragraph 4 of Article 88 of the Company Act.
8. 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:

1. The place of the meeting, time and draft agenda.
2. Clear and precise rules on participation in and voting at shareholders' meetings.
3. Where and how shareholders can get:
  - a. Unabridged documents as they will be presented at the shareholders' meeting;
  - b. Unabridged proposals and/or comments of the Board of Directors or its committees on each item on the draft agenda;
  - c. Unabridged shareholder proposals as received by the Company.
4. 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 0.

### **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 and 3 men for as reserve 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.

## **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. 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**

- 15.1 The Board of Directors of the Company is authorized to increase the share capital of the Company in the following manner:
  - a) The share capital of the Company may be increased by up to ISK 4.000.000.000 - four billion Icelandic Kronas nominal value with subscription of new shares.

- b) This authorization is valid until 31 December 2010.
- c) The nominal value of the shares which the shareholders may subscribe to is one krona. The subscription rate may be decided with by means of invitation to tender new shares.
- d) The priority rights of shareholders to subscribe to new shares shall be limited to the proportion of their ownership in the company.
- e) Shareholders may pay, partially or in full, for the shares that they subscribe to, by means of set-off of indebtedness, as may be further decided by the Board of Directors. A specialized report due to payment by means of set-off of indebtedness shall not be prepared. Instead the Board of Directors shall prepare a statement regarding the value of the payment, in accordance with Article 6 c of Act no. 2/1995 respecting Public Limited Companies.
- f) The new shares shall grant rights within the Company as of the date of registration of the increase of share capital. The Board of Directors shall lay down further rules relating to respite for subscription and payments for shares. A decision of the Board of Directors to increase the share capital shall be approved by an increased majority of the board - four out of five members.

## **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