

ARTICLES OF ASSOCIATION
OF
ICELANDAIR GROUP HF.

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Chapter I
Company Name, Domicile and Object

Article 1

The Company is a limited liability company. The name of the Company is **Icelandair Group hf.**

Article 2

The domicile of the Company is at Reykjavíkurlugvöllur, 101 Reykjavík.

Article 3

The object of the company is investment in equity holdings, particularly holdings in other companies engaged in air carrier operations, tourist services and transport operations, buying and selling real estate, credit operations and other related operations.

Chapter II
Share Capital of the Company

Article 4

The share capital of the Company is ISK 1,000,000,000 – one billion Icelandic krónur. Each share in the Company corresponds to one Icelandic króna or multiples thereof.

The Board of Directors of the Company is authorised to issue bonds in the amount of ISK 2,000,000,000, which shall carry six-month REIBOR interest with a 3.5% premium for a term of five years; the number of bonds issued shall be at the discretion of the Board, with interest payment dates every six months with the exception that the first interest period shall extend for 15 months, with the option of conversion into shares in the Company at the price of 29.7. The Board of Directors of the Company are authorised to issue new shares in accordance with the aforesaid authorisation of bondholders and issue new shares to owners of the convertible bonds who exercise their conversion right in accordance with the following rules. The shareholders waive their pre-emptive right in the authorised share offering. The authorisation is permitted for 5 years from 23 November 2006.

The Board of Directors of the Company is authorised to approve a stock option plan for the key managers of the company and/or its subsidiaries, which entails

their permission to buy further specified shares in the company. For the purpose of fulfilling the said stock option plan, the Board of Directors of the Company is authorised to increase the company's share capital by up to ISK 60,000,000 – sixty million Icelandic krónur – in nominal value, or up to 6% of the listed shares of the company at any time, which shall be used in fulfilment of the said stock option contracts. The selling price of shares in the Company to holders of stock options shall be decided by the Board of Directors of the Company at any time; the price shall not be lower than 27 times nominal, but shall in other respects be determined by the average rate of market trading in the company's share ten days prior to the signature of each stock option contract. This authorisation to increase the company's share capital is effective for five years from its approval and may be exercised by the Board in part or in full, at the discretion of the Board. Shareholders' pre-emptive rights pursuant to the Company's Articles of Association do not apply to the increase in share capital pursuant to the above authorisation to the Board of Directors. In the event that the share capital of the Company is increased during the period of the authorisation beyond ISK 1,000,000,000, the authorisation shall be increased so as to remain always at the level of 6% of the total share capital of the Company at any time. The shares in question are not subject to trading restrictions. The new shares shall carry rights in the company from the date of their listing.

In the event that the Board of Directors exercises the authority granted in Paragraph 2 of this Article 4, the phrasing of the conversion option of the convertible bonds shall be as follows:

(a) The owners of the bonds ("Owners") are entitled to convert the principal of the debt into equity in Icelandair Group ("Issuer"). The conversion option accrues pro rata over the lifetime of the bond, so that an Owner earns the option of converting 20% of the principal of the debt into shares for each passed year of the lifetime of the bond. Thus, the owner will acquire a 20% conversion option on the date ("Option Date") when one year has passed from the issue of the bond, an additional 20% on the date when two years have passed from the issue of the bond etc.

The Owner shall have a conversion option at the price of 29.7 ("Conversion Price"), as adjusted pursuant to subsection (b) below. The number of the shares to which an Owner is entitled shall be determined in accordance with the formula below:

$$H = \text{HST} / \text{BG}$$

where:

H represents the number of shares in the debtor to which an Owner is entitled;

HST represents the principal of the debt under the bond; and

BG represents the Conversion Price, taking into account any adjustments pursuant to subsection (b).

(b) The Conversion Price shall be adjusted as provided below:

(i) If dividends are paid to shareholders during the term of the bond, the Conversion Price shall be reduced in accordance with the following formula:

$$ABG = BG - (A / H)$$

where:

ABG represents the adjusted Conversion Price based on the dividend payments;

BG represents the original Conversion Price, as adjusted, if applicable, in accordance with subsection (b) at the time of payment of the dividend;

A represents the total amount of the dividend paid; and

H represents the number of outstanding shares in the Issuer at the time of payment of the dividend.

If a dividend is paid in a medium other than cash, the total amount of the dividend shall be based on the value of the dividend on the day that it is disbursed.

(ii) If the share capital of the debtor is increased through the issue of bonus shares, cf. Chapter V of the Companies Act No. 2/1995, or reduced for the purpose of balancing losses, cf. subsection (1) of paragraph 2 of Article 51 of the Companies Act No. 2/1995, the Conversion Price shall be adjusted in direct proportion to the resulting change in the number of shares in the Issuer.

(iii) In the event that changes are made in the nominal value of each share in the Issuer, the Conversion Price shall be adjusted in direct proportion to the change in the nominal price of the shares.

(c) In the event that the Issuer is dissolved or merged with or taken over by another company so that the operation of the Issuer is continued in another company, Owners shall be notified in writing of such plans. An Owner shall have 14 days from the receipt of such notice to decide whether the debt pursuant to this bond is immediately converted into shares or not. In such an event, the debtor shall be entitled to convert the entire principal of the debt into shares, regardless of the 20% pro rata rule of subsection (a) above. If an Owner decides to convert the debt into shares, the Issuer shall ensure that the debt is converted into shares in the Issuer in such a way that the rights of the Owner in the

takeover company or new company are the same as those of other shareholders in the Issuer.

(d) An increase in the share capital of the Issuer pursuant to Chapter V of the Companies Act No. 2/1995, where payment is made for the new shares, shall not have any effect on the conversion option of an Owner, provided that the payment for the shares is not less than 85% of the market price of the Issuer at the time of determining the price of the new shares. If the price of the new shares is lower than the price specified above, the Owner shall be notified of the proposed increase and granted 14 days to convert the debt into shares in order to be able to participate in the increase.

(e) Any other events relating to the Issuer, including the following, shall not affect the conversion option of an Owner:

- (i) A reduction in the share capital of the Issuer by a payment to shareholders pursuant to subsection (1) of paragraph 2 of article 51 of the Companies Act No. 2/1995;
- (ii) The issue of new convertible bonds pursuant to Chapter VI of the Companies Act No. 2/1995;
- (iii) The issue of subscription rights pursuant to Chapter V of the Companies Act No. 2/1995;
- (iv) The merger of the Issuer with another company/other companies pursuant to Chapter XIV of the Companies Act No. 2/1995, where the Issuer continues to operate under its current State Registration Number.

(f) An Owner shall exercise his conversion option by sending a notice to such effect to the Issuer during the two-week period preceding an Option Date. An owner may only exercise the entire part of the conversion option earned, and not a part of it. A notice by an Owner shall be regarded as a binding subscription to the shares in question. The Issuer is under obligation to increase his share capital by a number corresponding to the number of shares to which an Owner has an option pursuant to subsection (a) above and deliver the shares to the Owner within 14 days of the Option Date.

(g) When a claim pursuant to this Bond has been converted into a share in the Issuer pursuant to the above, the part of the debt which has been converted shall be regarded as paid in full. A provision for this conversion option has been made in the Articles of Association of the Debtor in accordance with Chapter VI of the Companies Act No 2/1995.

Article 5

The share capital of the Company may be increased, either by subscription to new shares or the issue of bonus shares, by a resolution of a shareholders' meeting, both requiring the same force of vote as amendments to these Articles of Association. Shareholders have pre-emptive rights to new shares in proportion to their holdings in the Company and within the time limits specified in the decision to increase the Company share capital. In the event that any shareholder does not exercise his or her pre-emptive rights in full, other shareholders shall be entitled to increased their subscription rights. A shareholders' meeting may, by a 2/3 majority vote, decide to waive pre-emptive rights on increases in share capital, provided that there is no discrimination.

In the event that a shareholder has not paid in the required share capital by the due date, he or she shall pay penalty interest on the amount due from that date to the date of payment, in addition to costs incurred for the collection of the payment. Other means of dealing with defaults may also be used, as provided for by law at any time.

Only a shareholders' meeting can decide on a reduction in share capital.

All shares carry equal rights.

Article 6

Shares in the Company are issued electronically pursuant to the provisions of the Act on the Electronic Registration of Title to Securities.

The Board of Directors shall maintain a register of shares in a lawful form. Registry of title in a securities depository constitutes full proof of title to shares in the Company and adequate basis for entry in the register of shares.

The register of shares shall be preserved in the office of the Company, where all shareholders shall have access to it and permission to inspect its contents.

Article 7

Shares in the Company may be pledged or sold without restriction except as otherwise provided by law.

The sale of shares to foreign nationals is subject to the provisions of Icelandic statutory law, as current at any time.

Transfers of title to shares, whether by sale, gift, inheritance, the settlement of an estate or attachment, shall be promptly notified to the Company's office and the Company's register of shares shall then be amended accordingly.

Parties who have acquired shares in the Company cannot exercise their rights as shareholders until their names have been entered in the register of shares, or if they have given due notice and submitted proof of title.

For the Company, the register of shares shall be regarded as full proof of title to any shares in the Company, and dividends at any time, as well as all notices, shall be sent to the party registered at any time as the owner of the shares in question in the Company's register of shares. The Company is not liable for the loss of any payments or notices resulting from neglect by shareholders to notify changes in title or address.

Article 8

No privileges are attached to shares in the Company.

Shareholders shall not be required to suffer redemption of their shares except as provided by law.

Article 9

The Company shall not grant loans against its own shares in the Company except as permitted by statutory law. The Company may acquire its own shares to the extent permitted by statutory law. Voting rights of shares owned by the Company in itself may not be exercised.

The Company shall not grant loans to shareholders, Board members, the Managing Director or senior officers of the Company, nor provide them with guarantees. The provisions of this Article do not, however, apply to normal business loans or purchases by the Company's employees, or an associated company, of shares, or the purchase of shares for their benefit, as permitted by law.

Article 10

Shareholders are under obligation, without specific undertaking, to observe the Articles of Association of the Company in their current form or as lawfully amended at any time. Shareholders can not be obligated, neither by the Articles of the Company nor by amendments thereto, to increase their shareholding.

Shareholders are not liable for the commitments of the Company beyond their share in the Company unless they assume such further commitments under a

separate legal instrument. This provision cannot be amended by any resolution of a shareholders' meeting.

Chapter III

Shareholders' Meetings

Article 11

The supreme authority in the affairs of the Company is entrusted to lawful shareholders' meetings, within the limits set by these Articles of Association and statutory law.

Shareholders exercise their powers of decision at shareholders' meetings.

All shareholders may attend and speak at shareholders' meetings and exercise their right to vote.

A shareholder may appoint a proxy to attend meetings on his/her behalf. The proxy shall submit a written and dated letter of proxy.

A shareholder may attend a meeting accompanied by an advisor. The advisor shall not be entitled to speak, submit motions or vote at shareholders' meetings.

The auditor of the Company and the Managing Director shall have full rights to speak and submit motions at shareholders' meetings even if they are not shareholders

The Board of Directors may invite experts to attend individual meetings, if their opinion or assistance is required.

Article 12

Shareholders' meetings shall be called at the discretion of the Board of Directors, at the request of the Company auditor , or if shareholders controlling 1/10 of the shares of the Company request a meeting by a written notice. The request shall include a statement to the Board of Directors explaining the reason for the request, and the Board of Directors shall notify shareholders of the business on the agenda in the notice of the meeting.

When a lawful request for a meeting has been submitted, the Board of Directors shall call a meeting no later than fourteen days from the time that the request was received. If the Board of Directors has not called a meeting within that time, shareholders may require a meeting to be called pursuant to the provisions of the Companies Act.

Article 13

Shareholders' meetings, including the Annual General Meeting, shall be called by a notice to each shareholder by registered mail, telegram or by other verifiable means or, at the discretion of the Board of Directors, by a notice in the newspapers, with at least one week's notice. A shareholders' meeting is valid, regardless of attendance, if the meeting has been properly convened. Attendance shall be determined based on the number of ballots delivered.

The notice of a shareholders' meeting shall specify the business to be addressed at the meeting. If the agenda includes motions to amend the Articles of the Company, the substance of the motion shall be included in the notice of the meeting. Seven days before a shareholders' meeting, at the latest, an agenda, final submissions and, in the case of annual general meetings, the annual accounts, report of the Board of Directors and the auditor's report shall be laid open for inspection by shareholders at the Company office.

Each shareholder shall be entitled to have a specific item of business included on the agenda of a shareholders' meeting, provided that such shareholder submits a written request to this effect to the Board of Directors of the Company with sufficient advance notice for the item to be included on the agenda in accordance with these Articles.

Items of business which are not included on the agenda may not be accepted for final decision at a shareholders' meeting except with the consent of all the shareholders in the Company, but a resolution may be passed to provide guidance to the Board of Directors of the Company. Lawfully submitted motions for amendments may be put to a vote at the meeting itself, even if they have not been laid open for inspection by shareholders. An Annual General Meeting is always permitted to conclude matters which it is required to address pursuant to statutory law or the Company Articles.

Article 14

The Annual General Meeting shall be held before the end of the month of May each year.

The agenda of the Annual General Meeting shall include the following items of business:

1. The Board of Directors of the Company shall report on the Company's position and its activities in the preceding year of operation
2. Audited annual accounts shall be submitted for approval
3. Decisions shall be taken concerning the disposal of the profit or loss of the Company during the fiscal year

4. Motions to amend the Articles of the Company shall be addressed, if submitted;
5. A decision shall be made on the remuneration of the Board of Directors
6. A Board of Directors shall be elected
7. Company auditors shall be elected
8. Discussions and voting on other items of business lawfully submitted at the meeting.

Article 15

The Chairman of the Board of the Company, or an elected chairman of the meeting, shall preside over shareholders' meetings and the election of a secretary. At the outset of the meeting the chairman of the meeting shall verify whether the meeting was properly called and declare whether such is the case. The chairman of the meeting presides over discussions and voting.

Article 16

Each share of one króna shall carry one vote.

All ordinary business at shareholders' meetings shall be decided by majority vote, except as otherwise provided in these Articles of Association or by law. In the event of an equality of votes at elections to posts in the Company, the election shall be decided by casting lots.

Article 17

A brief account of proceedings at shareholders' meetings shall be entered in a book of minutes, together with all resolutions of the meeting and results of voting. These minutes shall constitute conclusive proof of proceedings at shareholders' meetings.

Chapter IV

The Board of Directors of the Company etc.

Article 18

The Board of Directors of the Company shall be composed of five members and three alternate members elected at the Annual General Meeting for a term of one year. The eligibility of members of the Board is subject to statutory law. Elections to the Board shall always be by ballot if the number of nominations exceeds the number of Members to be elected.

Prospective candidates to the Board of Directors shall submit a written notice to such effect to the Board of Directors no later than five days before the start of the Annual General Meeting, or extraordinary shareholder's meeting where elections to the Board of Directors are included on the agenda. Only those who have submitted a notice pursuant to the above are eligible as candidates at an Annual General Meeting.

At the Annual General Meeting elections to the Board of Directors shall be restricted to ballots with the names of candidates who announced their candidature within the set deadline.

Article 19

The Board of Directors holds the supreme authority in the affairs of the Company between shareholders' meetings and is responsible for ensuring that its organisation and operation are at all times in correct and proper order.

The Board of Directors shall appoint a Managing Director for the Company and decide the terms of his or her employment. The Board of Directors of the Company and the Managing Director are responsible for the management of the Company.

The Board of Directors shall ensure adequate supervision of the accounts of the Company and the disposal of its assets.

The Board of Directors shall establish working procedures in compliance with the provisions of the Companies Act.

Only the Board of Directors may assign powers of procuration.

The signatures of the majority of the Board shall bind the Company.

Article 20

The Board of Directors of the Company shall elect a Chairman of the Board and Vice-Chairman from among its members, and allocate tasks among themselves in other respects as required.

The Chairman shall call Board meetings and ensure that all the members of the Board are notified of such meetings. Meetings of the Board shall be held at the discretion of the Chairman. The Chairman shall also call a meeting of the Board if requested by one member of the Board or the Managing Director. Meetings of the Board of Directors are valid if attended by a majority of the members of the Board. However, no important decision shall be taken unless all members of the Board have had an opportunity to discuss the matter, if possible. The outcome of

issues shall be decided by force of vote. In the event of an equality of votes the issue shall be regarded as rejected.

The Managing Director shall attend Board meetings even if he or she is not a member of the Board, and shall have the right to participate in discussions and submit proposals, unless otherwise decided by the Board in individual cases.

A book of minutes shall be kept of proceedings at meetings of the Board of Directors, signed by the participants in the meeting. A member of the Board of Directors or Managing Director who disagrees with a Board decision is entitled to have his or her dissenting opinion recorded in the minutes.

Article 21

The Managing Director of the Company and the Board of Directors are jointly responsible for the management of the Company.

The Managing Director has charge of the day-to-day operation of the Company, and in this respect he or she shall observe the policy and instructions of the Board of Directors. Day-to-day operations do not include measures which are unusual or extraordinary. Such measures may only be taken by the Managing Director pursuant to special authorisation from the Board of Directors of the Company unless it is impossible to wait for the decisions of the Board of Directors without seriously disadvantaging the operation of the Company. In such an event, the Managing Director shall consult with the Chairman of the Board, if possible, after which the Board of Directors shall immediately be notified of the measures.

The Managing Director shall ensure that the accounts and finances of the Company conform to the law and accepted practices and that the disposal of the property of the Company is secure.

The Managing Director shall provide the Members of the Board of Directors and Company auditors with any information pertaining to the operation of the Company which they may request, as required by law.

Chapter V

Accounts, Auditing etc.

Article 22

At the Annual General Meeting of the Company a chartered auditor or auditing firm shall be elected for the Company for a term of one year to review the accounts of the Company and submit the conclusions of the review to the Annual General Meeting. The auditor shall have access to all books and documents of

the Company for such purpose. Auditors shall not be elected from among the members of the Board or employees of the Company. The qualifications and eligibility of auditors at elections are in other respects governed by law.

The operating year and financial year of the Company shall be the calendar year. The Board of Directors shall have prepared the annual accounts of the Company and submitted them to the Company's auditors no later than one month before the Annual General Meeting.

Part VI

Amendment of the Articles, Dissolution of the Company etc.

Article 23

These Articles of Association may only be amended at a lawful Annual General Meeting or extraordinary shareholders' meeting, provided that the notice of the meeting clearly indicates that such an amendment is proposed and outlines the main substance of the amendment. A decision is valid only if it has the support of at least 2/3 of the cast votes and the support of shareholders controlling at least 2/3 of the share capital represented at the meeting, provided always that no other force of vote is required by these Articles or statutory law, cf. Article 93 of the Companies Act.

Article 24

The dissolution of the Company, its division or merger with other companies is subject to the provisions of statutory law concerning limited liability companies.

Article 25

Matters on which these Articles provide no guidance shall be governed by the provisions of the Companies Act and such provisions of other current statutory law as may be applicable.

So approved at a shareholders' meeting on 12 September 2007.

On behalf of Icelandair Group hf.

Jón Karl Ólafsson, CEO

