

## Product liability

### Insurance Terms No. AA21

#### The insurance policy is governed by:

- The insurance policy including endorsements and special terms and conditions.
- These insurance terms, No. AA21
- The Company's general terms and conditions No. YY10.
- Act No. 30/2004, on Insurance Contracts.

Provisions of the insurance certificate or of a policy renewal receipt take precedence over the provisions of the insurance terms. Provisions of the insurance policy, of the renewal receipt and of the insurance contract terms take precedence over derogable legal provisions.

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##### A. General terms and conditions

General terms and conditions apply to chapters B and C of these terms and conditions.

##### 1. The insured

The policyholder is the person who is insured.

#### 2. Insurance policy's validity

The insurance covers insurance events that take place:

2.1 In Iceland.

2.2 In countries other than Iceland if they are specifically mentioned in the insurance policy or renewal receipt. Compensation for loss or damage occurring outside these countries is paid if the loss or damage can be traced to goods that are exported unchanged, recycled or as part of another product:

2.2.1 For private use.

2.2.2 For commercial purposes, when the insured did not know or could not have known that the product would be exported from these countries.

#### 3. Term of insurance

3.1 The insurance applies to claims against the insured that are made during the insurance period, irrespective of when the event that led to the claim occurred.

3.2 A claim is considered to have been established at the time that the earlier of the following events took place:

3.2.1 The claimant makes a written claim for compensation against the insured or the company.

3.2.2 The insured first became aware that a third party has suffered a financial loss that may fall under this insurance and may be traced to the insured's negligence or to his product, or that there is a direct danger that such damage may occur.

3.3 A claim for compensation pursuant to Article 3.2, which can be traced to damage, whether sudden or gradual, will not be compensated

by the company if the loss or damage came to light partially or completely before the start of the insurance period.

#### 4. Specific limitations on liability

The insurance contract does not compensate loss or damage or increase thereof that is directly or indirectly the result of or caused by:

- 4.1 Earthquakes, volcanic eruptions, landslides, snow avalanches or other natural disasters.
- 4.2 War, invasion, military action, civil commotion, uprisings, riots, strikes, or similar incidents.
- 4.3 Nuclear reactions, ionic radiation, pollution stemming from radioactive materials, nuclear fuel, or nuclear waste.

#### 5. Precautionary principles

- 5.1 The insured shall comply with directions in law and regulations regarding pollution prevention.
- 5.2 The insured may not provide incorrect or misleading information on the qualities or use of a product that he sells or provides in another manner, e.g. in sales or instruction booklets.
- 5.3 The insured must ensure that the goods he sells or provides in any other manner undergo mandatory quality monitoring before being placed on the market and the insured must carry out the testing and analyses that the public authorities require.
- 5.4 The insured may not place on the market goods that he knows or should know have harmful qualities.
- 5.5 The insured must comply with public rules and instructions on chemical additives.
- 5.6 The insured must comply with rules and instructions on the labelling of goods.

#### 6. Violations of precautionary principles

The precautionary principles set forth in these terms must be followed. In the event of non-compliance with the precautionary principles, the company may be absolved of its liability, wholly or in part, cf. Article 26 of the Insurance Contracts Act No. 30/2004.

#### 7. Change of risk level

The insured shall inform the company of any change in the scope and nature of his operation that may increase the risk of loss or damage. Neglecting this notification requirement may result in the liability of the company being cancelled in whole or in part, cf. Article 24 of the Insurance Contracts Act No. 30/2004.

#### 8. Calculation of premiums

The insurance premium takes account of the turnover and operation of the insured. If the final premium cannot be determined at the beginning of the insurance period, it is estimated and the final premium calculated at the end of the period. No later than two months before the end of the period of insurance, the policyholder is required to provide the company with all the information that the company considers necessary to be able to make a final determination regarding the premium. Should this information not arrive in time, the company is allowed to decide upon the final premium in a way that it considers to be fair.

#### 9. Payment of premiums

- 9.1 The insurance premium is due and payable upon demand.
- 9.2 Default in the payment of the premium may cause the loss of rights and the termination of an insurance contract, cf. Article 33 of the Act on Insurance Contracts No. 30/2004.

#### 10. Reimbursement of premiums

If the insurance contract expires before the insurance period is concluded, the company shall reimburse the proportion overpaid by the insured for the period when the insurance contract was not in effect. This does not apply if an insurance contract is invalid because the company has completed its duties by paying the agreed sum insured.

#### 11. Insurance amount

- 11.1 The company's liability for each insurance period is limited to the insurance sum stated in the insurance policy or renewal receipt. This applies even if more than one event of loss or damage occurs within the insurance period.

- 11.2 The company's total payment for each insurance event within the same insurance period can never exceed the amount stated on the insurance policy or renewal receipt. If there are many instances of damage due to the same insurance event they are considered to be caused by one insurance event.
- 11.2.1 The company's liability for each insurance event is limited to the sum insured during the insurance period that the first claim was made for the insurance event, even though claims are made in more than one insurance period. Compensation that may have been paid on account of other insurance events in the same period shall be deducted.
- 11.3 Costs that result from determining whether or not the insured is liable, and which the company has agreed upon, and interest on the sum insured, are paid, even if the company's payment thus exceeds the sum insured. In the event of loss or damage occurring outside the Nordic countries, the company's obligation to pay is limited to the sum insured.
- 11.4 If the sum insured amounts to less than the principal of the compensation amount, the company only pays for the part of the cost and interest that amounts to the compensation the company is under obligation to pay.
- 12. Deductible**
- 12.1 In every event of damage there is a deductible the insured must pay, as stated in the insurance policy or renewal receipt.
- 12.2 If the principal of a compensation claim does not exceed the deductible, the company does not pay for costs either, even though the sum of the claim and the cost exceeds the amount of the deductible.
- 13. Determination of the amount of compensation for personal injury**
- Compensation for personal injury is determined according to the Act on Tort Law No. 50/1993.
- 14. Determination of compensation for property damage**
- 14.1 Compensation shall be based on the value on the date the damage is incurred.
- 14.2 The company can either pay the estimated cost of repair or have the damaged item repaired and pay for the cost, if it is possible to repair it so that it is in a similar state as before the damage and the company believes that it will be worth it.
- 14.3 The company may pay compensation in cash or may procure an article comparable to the damaged article if it is not possible to repair the damaged goods or it is not worthwhile to do so, in the company's estimation. In the event that the company has paid compensation under this section, the company reserves the right to claim ownership of the item that was damaged.
- 14.4 The company has the right to pay the difference between the value of the goods before and the value after the insurance event.
- 14.5 The insured shall not profit by an insurance event. The insurance contract shall only compensate the actual loss or damage of the insured.
- 15. The status of the injured party when loss or damage occurs**
- 15.1 If the insurance covers the insured's damage because of his liability, the claimant can demand compensation directly from the company. The company and the insured are under obligation to inform the injured party of any existing liability insurance contract.
- 15.2 If a claim for compensation is made against the company, the insured is to be notified without unreasonable delay and informed about the claim's procedure. The acknowledgement of the company of certain details that concern liability does not constitute a binding commitment on behalf of the insured person.
- 15.3 In the event that the claimant informs the company that he intends to bring legal action against it, the company can then demand that he also bring legal action against the insured. The company shall notify the injured party of its demand without any unnecessary delay and in a verifiable manner.
- 15.4 In other respects regarding the claimant's status, reference is made to Article 44 of the Act on Insurance Contracts, No. 30/2004.
- 16. Handling of compensation claims**

- 16.1 The insured must not admit his liability, or enter into any agreements regarding compensation, without the company's permission.
- 16.2 The company represents the insured, and is in charge of the entire case procedure and case procedures in a court of law where necessary. The same applies regarding salvage fees or assistance.
- 17. Time limitation on liability**
- The liability of the company expires according to the principles concerning the expiration of liability in tort, cf. the second paragraph of Article 52 of the Insurance Contracts Act No. 30/2004.
- B. Product liability**
- 18. Scope of compensation**
- The insurance compensates:
- 18.1 Direct physical damage or damage to items belonging to a third party, which is caused by a defective product that the insured sells or hands to others in another manner, provided that the damage occurred after the insured delivered the goods. The liability of the insured is governed by the Icelandic Act on Product Liability No. 25/1991. The company is obliged to pay only if the damage was caused in the field of operation stated in the insurance policy, or renewal receipt.
- 18.1.1 The insurance also covers damage to objects caused by a defective product that the insured sells or hands to others in another manner, provided that the damage occurred after the insured delivered the goods. This provision applies even if the object is owned by an operator and is not principally intended for private use.
- The insurance contract does not compensate:**
- 18.2 Damage to the product itself.
- 18.3 Damage, expenses or costs in the event that the insured takes products back, makes or hands out a new product, repairs, destroys or moves a product or makes any other arrangements of that nature due to defects in the sold items. The same applies to costs, expenses or damage resulting from an examination of whether the product is defective or there is a risk of an insurance event or damage caused by the fact that the defective product cannot be used.
- 18.4 Damage to items pursuant to Article 18.1.1 that are made from the insured's product, that are attached to or mixed with it, or that are in any such way connected to it, and where the damage is caused by the defective product that the insured sold or handed out in any other manner, and occurred after the insured delivered the product.
- 18.5 Operating loss, loss of availability, or any other indirect loss or damage.
- 18.6 Damage caused by a product used in the operation of aircraft and which either causes an air accident or increases the risk of such an accident.
- 18.7 Damage that is attributable to asbestos or a material containing asbestos in some form.
- 18.8 Damage that can be traced to pollution of air, earth, vegetation, water or sea. The company will pay compensation for such damage, nevertheless, if it can be traced to one sudden event.
- 18.9 Loss or damage traceable to tobacco and tobacco goods.
- 18.10 Loss or damage that may be traced to a product that is defective and that is sold or delivered after its sale has been banned.
- 18.11 Fines or other penalties.
- 18.12 Specific punitive damages.
- 18.13 Damage that is directly or indirectly caused by terrorism of any kind, whether it is caused by biological or chemical effects and/or poisoning, including bacteria and viruses, or when the consequences of an accident are increased because of the aforementioned.
- 18.14 Damage or loss that is caused directly or indirectly, completely, or partially because of:
- The impact of time registration on the functionality of equipment, systems or a combination of both of these.
- Supervision of or consulting on the impact of time registration on the functionality of equipment, systems or a combination thereof.
- Surveillance, acknowledgement, decision-making, confirmation, or endorsement regarding situations where the effects of time registration on the functioning of equipment, systems, or a combination thereof (including, but not restricted to, the work of executives,

board members and accountants on their assignments).

This exemption applies to all time registrations.

“Time registration” refers to the specification of time, which is built upon a calendar system, when the specification works as information, a code, a signal or in any other way in equipment, systems or a combination thereof.

“Equipment” refers to any kind of machinery, devices, products and other tangible items or a collection of items, whether real property or chattels, including, but not restricted to, computer hardware, software or integrated electronic devices (including micro-processors and silicon chips).

“Systems” refers to any form of information, instruction, or a collection thereof, and every kind of medium for information and instructions in a computer friendly format, on paper, or in the form of lasers, waves, physical effects, chemical processes or in other forms, tangible, or intangible.

## **C. Extensive product warranties**

### **19. Scope of compensation**

The insurance compensates:

- 19.1 Damage to items that are made from the insured's product, that are attached to or mixed with it, or that are in any such way connected to it and where the damage is caused by the defective product that the insured sold or handed out in any other manner, and occurred after the insured delivered the product. The company is obliged to pay only if the damage was caused by the operation named in the insurance policy or renewal receipt and was caused by a product mentioned therein.
- 19.2 The company's obligation, according to Article 19.1, is limited to liability that is directly attributable to the necessity of throwing away or repairing an item that is made from the insured's product or connected to it, as stated above, or the fact that the item becomes more expensive in production or its price is cut. Compensation, however, is paid only for the item's decrease in worth, for additional cost in its production or making, or the direct cost for its repair. Compensation for other damage, expenses or costs, e.g. for sending repairmen or other employees to the location, recalling the item, investigating or transporting items created

using the product of the insured or providing warning of the risk of such items will not be paid. If damage or loss caused by the product of the insured has occurred due to items stated in Article 19.1, the value of the insured's product as it was valued as an unflawed item must be deducted from the insurance compensation.

### **The insurance contract does not compensate:**

- 19.3 Damage to the product itself.
- 19.4 Damage, expenses or cost in the event that the insured takes products back, makes or hands out a new product, repairs, destroys or moves a product or makes any other arrangements of that nature due to defects in the sold items. The same applies to costs, expenses or damage resulting from an examination of whether the product is defective or there is a risk of an insurance event or damage caused by the fact that the defective product cannot be used.
- 19.5 Operating loss, loss of availability, or other indirect loss or damage, cf. however 19.2.
- 19.6 Damage caused by a product used in the operation of aircraft and which either causes an air accident or increases the risk of such an accident.
- 19.7 Damage that is attributable to asbestos or a material containing asbestos in some form.
- 19.8 Damage that can be traced to pollution of air, earth, vegetation, water or sea. The company will pay compensation for such damage, nevertheless, if it can be traced to a single sudden event.
- 19.9 Loss or damage traceable to tobacco and tobacco goods.
- 19.10 Loss or damage that may be traced to a defective product and that is sold or delivered after its sale has been banned.
- 19.11 Fines or other penalties.
- 19.12 Specific punitive damages.
- 19.13 Damage that is directly or indirectly caused by terrorism of any kind, whether it is caused by biological or chemical effects and/or poisoning, including bacteria and viruses, or when the consequences of an accident are increased because of the aforementioned.

19.14 Damage or loss that is caused directly or indirectly, completely, or partially because of:

The impact of time registration on the functionality of equipment, systems or a combination thereof.

Supervision of or consulting on the impact of time registration on the functionality of equipment, systems or a combination thereof.

Surveillance, acknowledgement, decision-making, confirmation, or endorsement regarding situations where the effects of time registration on the functioning of equipment, systems, or a combination thereof (including, but not restricted to, the work of executives, board members and accountants on their assignments).

This exemption applies to all time registrations.

“Time registration” refers to the specification of time, which is built upon a calendar system, when the specification works as information, a code, signal or any other way in equipment, systems or a combination thereof.

“Equipment” refers to any kind of machinery, devices, products and other tangible items or a collection of items, whether real property or chattels, including, but not restricted to, computer hardware, software or integrated electronic devices (including micro-processors and silicon chips).

“Systems” refers to any form of information, instruction, or a collection thereof, and every kind of medium for information and instructions in a computer friendly format, on paper, or in the form of lasers, waves, physical effects, chemical processes or in other forms, tangible, or intangible.

These insurance terms shall take effect on 1 January 2012.