

# **Rules of procedure for the Board of Directors of Isavia ohf.**

## **Article 1. About the rules of procedure**

- 1 These rules of procedure are established in accordance with the provisions of Act No. 2/1995 and Article 9 of the company's Articles of Association. These rules provide further details for the execution of the work of the Board of Directors in accordance with the provisions of the Act.
- 2 All Board members are to receive a copy of the rules of procedure when they take a seat on the company's Board and shall also be provided with the Articles of Association. As a rule, the rules of procedure are to be addressed at the first Board meeting of the new Board of Directors and amended as decided by the Board. Board members are to confirm the rules of procedure with their signatures. The Board's rules of procedure are to be published on the website of the company or be electronically accessible on the Internet.

## **Article 2. Scope and tasks of the Board of Directors**

- 1 The company's Board of Directors has, according to the Act on Public Limited Companies, ultimate authority over the affairs of the company between shareholders' meetings and has the principal responsibility for the operation of the company. The Alþingi (Icelandic parliament) has established laws with respect to the company's activities, and its Articles of Association have been prepared on the basis of these laws. The Articles define the role of the company and its object. The Board shall establish goals for the company in accordance with its object and formulate its policies in co-operation with the Managing Director.
- 2 The Board must follow guidelines on good corporate governance. Particular reference is made to the rules of the OECD on corporate governance and the Corporate Governance Guidelines issued by the Iceland Chamber of Commerce, the Icelandic Stock Exchange and the SA Confederation of Icelandic Enterprise. Account is also to be taken of the Guidelines on Corporate Governance of State-Owned Enterprises, published by the Iceland Chamber of Commerce, Nasdaq OMX Iceland and the SA Confederation of Icelandic Enterprise.
- 3 The Board is to monitor that the Managing Director complies with the policies in accordance with the object and goals of the company.  
The Board shall ensure that the organisation of the company and its operations is, as a rule, so arranged as to implement the company's policies in accordance with laws, regulations and the Articles of Association. Board members must always be guided by the interests of the company.
- 4 The Board must ensure adequate supervision of the accounts and handling of the company's assets and must at least annually confirm its operating and financing budgets. The Board must monitor that the operating and financing budgets are followed, take a position on reports on the payment ability of the company, major measures, the guarantees that are of importance, financing, cash flows and special risk factors. The Board shall establish an active and documented system of internal controls to undertake these tasks and perform regular audits of such system in consultation with the company's audit committee, should such committee have been established.
- 5 The Board is responsible for appointing the Managing Director of the company, preparing his job description and relieving him of his duties. The Board is responsible for monitoring the work of the Managing Director and shares with him the responsibility of managing the

- company. A written employment contract, in which the salary and other terms of employment are defined, shall be reached with the Managing Director. The Board may appoint the Chairman of the Board to negotiate the terms with the Managing Director.
- 6 Board members must fully familiarise themselves with the operation of the company in order to be able to make informed decisions on its affairs.
  - 7 The Board can seek advice in cases, at the expense of the company, so that it is able to fulfil its duties properly.
  - 8 The Board may, under special circumstances, allocate specific issues to individual Board members, one or more, for studying and for preparation for discussion at a Board meeting.
  - 9 The Board of Directors makes decisions on all matters considered unusual or extraordinary. In the event of issues that require immediate resolution, the Managing Director may process such issue if it is not possible to wait for the decision of the Board without significant disadvantage to the company. In such cases, the Managing Director must immediately inform the Chairman of the Board about the measures employed.
  - 10 The Board regularly evaluates its performance, its practices and rules of procedure, company development, the performance of the Managing Director and the efficiency of sub-committees if present. The performance assessment is intended, among other things, to evaluate the strengths and weaknesses of the Board's work and practices and take into consideration the components which the Board believes may be improved.

### **Article 3. Allocation of responsibilities among Board members**

- 1 Once the company's Board has been elected, the Board is to immediately meet and allocate tasks among themselves and elect a Chairman and Vice-Chairman. In addition, the same meeting shall decide who is to keep the minutes of the meetings of the Board. The Board may elect a Secretary who is not a member of the Board. The most senior member of the Board shall chair meetings until the Board has elected its Chairman, in which case the Chairman shall take over.
- 2 The Vice-Chairman chairs meetings in the absence of the Chairman. If he is not present, the meeting is chaired by the most senior member of the Board. In the event that more than one member has been a member of the Board for an equal length of time, the person who is more senior in years shall chair the meeting.
- 3 The Chairman of the Board bears the main responsibility for the work of the Board and shall encourage active participation in its entire decision making. In addition, the Chairman of the Board of Directors shall:
  - Ensure that new members of the Board receive information and guidance on the work practices of the Board, the affairs of the company and the principle aspects that relate to its management.
  - Ensure that the Board receives in its work accurate and clear information and data in order to be able to perform its work, including its monitoring role.
  - Be responsible for communications between the Board and the company's shareholders.
  - Encourage open communication within the Board and between the Board and the company's management.
  - Make decisions on the agenda for the meetings of the Board in consultation with the company's Managing Director, convene meetings and chair the meetings.
  - Follow progress in the execution of Board decisions within the company and confirm their implementation to the Board.

- Ensure that Board members make an annual assessment of their work, that of the Managing Director and that of the sub-committees if established.
  - Take the initiative in reviewing these rules of procedure.
  - The Chairman of the Board must not assume responsibilities for the company other than those that may be considered a normal part of his work as a Chairman, with the exception of individual projects which the Board assigns to him to perform.
- 4 Board members are to familiarise themselves with laws and regulations that apply to the operation of public limited companies and the activities of the company and have an understanding of their role and responsibilities and that of the Board. In other respects, members of the Board:
- Are to make independent decisions in each separate case.
  - Understand the objectives and projects of the company and have an understanding of how they should organise their Board membership responsibilities in order to contribute to the achievement of these objectives.
  - Call for and study all documents and data that they feel that they need in order to have a full understanding of the operations of the company and to be able to make informed decisions.
  - Ensure that the decisions of the Board are implemented and that laws and regulations are complied with in the operation of the company.
  - Encourage a good working atmosphere within the Board.
  - Prevent their affairs, whether personal, business related or otherwise, from leading to a direct or indirect conflict of interest between themselves and the company.
- 5 Board members may retire from the Board at any time following written notification thereto to the Board.

#### **Article 4. Managing Director**

- 1 The Managing Director is responsible for the day-to-day operation of the company and must in this respect follow the policies and instructions laid down by the Board of Directors. The Managing Director represents the company in aspects that are within his sphere of work according to his job description and according to an agreement reached with the Chairman of the Board.
- 2 The Managing Director, or an employee appointed by him, recruits other employees. The Managing Director shall consult with the Board of Directors as regards the number of employees, as well as the recruitment of his deputy and the directors of divisions within the company.
- 3 The Managing Director may not make decisions that are considered unusual or extraordinary, such as purchasing, selling or pledging the company's real property except with the authorisation of the Board. The Board shall establish general rules for reference as regards investments and redemption of funds belonging to the principal operation of the company.
- 4 The Managing Director shall ensure that the company's accounts are kept as provided for by law and good accounting practice and that the handling of the company's assets is secure. The Managing Director shall provide the auditor with information and documentation that are pertinent for auditing the accounts and provide the auditor with the information, data, facilities and assistance that the auditor deems necessary for his work.
- 5 The Managing Director must at all times conduct his work with integrity and take account of the interests of the company and must submit information on other tasks, that are unrelated to the company, to the Board for discussion.

- 6 The Managing Director may not be a member of the board of other companies except with the permission of the Board. In making such decision, the Board must discuss the reasons for the Managing Director accepting such membership and what effect it could have on the company.
- 7 The Managing Director must ensure that he does not depart in any manner from the general framework that is delineated in the operating and finances budgets of the company for each accounting year except with the permission of the Board.

## **Article 5. Board representation**

- 1 The Chairman of the Board of Directors represents the Board and acts on its behalf as regards the affairs of the company unless the Board decides otherwise. He appears on behalf of the company as appropriate in consultation with the Managing Director.
- 2 All formal communications with the owners of the company are to be in consultation with the Chairman of the Board.
- 3 The Chairman of the Board represents the Board with respect to the Managing Director.
- 4 The majority of the company's Board of Directors sign on behalf of the company, and they alone may grant powers of procuration.

## **Article 6. Convening meetings, etc.**

- 1 Regular Board meetings are to be decided for a year at a time, during the period from one annual general meeting (AGM) to the next. The Chairman of the Board shall submit a proposal for the year's schedule within one month of the AGM. As a rule, Board meetings are to be held once a month, with the exception of July. Extraordinary meetings are to be held as needed. Meetings are to be held in the main offices of the company. Meetings may be held elsewhere under special circumstances in the event that the Chairman believes that the substance of the meeting or other circumstances so warrant. Board members may attend meetings by means of teleconferencing.
- 2 Regular Board meetings are to address the following items:
  - The meeting minutes of the preceding meeting.
  - Report of the Managing Director on the company's activities, cf. Article 12.1.
  - As a rule, the decision on when to hold the next meeting is to be made at the end of each meeting.
- 3 The Chairman is under obligation to call a meeting if at least two members of the Board, the Managing Director or the auditor so request.
- 4 The Managing Director attends meetings of the company's Board of Directors and has the right to debate and to submit proposals there, unless the company's Board decides otherwise in individual instances.
- 5 Meetings are to be called with at least 7 days' notice. The Chairman of the Board, however, can decide on a shorter deadline, particularly as regards extraordinary meetings, if he considers this to be unavoidable due to special circumstances. Alternates are to be summoned to meetings in the event a member is unable to attend. Alternates are to be summoned in accordance with the request of the member who is unable to attend.
- 6 Notices for meetings shall generally be in writing or by e-mail and must state the agenda of the meeting. Written copies of documents for the meeting as regards individual issues to be addressed must generally be accessible to Board members two days before the meeting in the electronic data room of the company, unless the Chairman decides otherwise. All data forming the basis of decisions during Board meetings are to be accessible in the electronic

- data room of the company. In certain cases, the Chairman may decide that written meeting data be distributed for the first time at a meeting and then returned at the end of the meeting.
- 7 In the event that the Chairman is of the opinion that it is not possible, due to special circumstances, to wait for a Board meeting to be held, he may make the decision to hold a teleconferencing meeting with the Board or present the case to the Board members in writing or by telephone and see to it that Board members vote on the issue in writing or by telephone. Decisions thus made are to be submitted to the next meeting for confirmation and recorded.
  - 8 The Board must regularly address the issues required by laws and regulations, such as the internal controls of the company, accounting and auditing. Auditors and the Managing Director are to be called to the appropriate meetings. In addition, the auditor shall be called to a Board meeting if at least one Board member so requests.
  - 9 The Board shall seek to engage in regular discussions on the manner in which it intends to discharge its duties, the areas which it will focus on, what communications and procedural rules will be upheld and what the main goals of the Board are. For further information, see Article 2.10.

### **Article 7. Decision-making powers, voting, etc.**

- 1 The presence of the majority of the principal members of the Board constitutes a quorum, provided that the meeting has been called in accordance Articles 6.5 and 6.6. An important decision may, however, not be made unless all the members, or their alternates, have been in a position to debate the matter, if possible.
- 2 All matters brought before a Board meeting shall be decided by majority vote, unless otherwise provided for in the Articles of Association.
- 3 Board members are only bound by their convictions and not by the instructions of those who have elected them.
- 4 As a rule, matters are not to be submitted for a decision during Board meetings unless Board members have received the data concerning the issue or sufficient information about it before the meeting and have had time to familiarise themselves with its substance.
- 5 Issues to be decided on shall generally be submitted before the Board in writing and supported by documentation and statistical material. Issues brought before the Board for introductory purposes may be presented verbally.
- 6 All discussions and decisions reached by the Board are to be treated as confidential among Board members and employees, and the opinions of individual Board members or voting results in individual cases may not be made public unless the Board decides otherwise.

### **Article 8. Board member enquiries and communications between Board meetings**

- 1 The Board must have access to all data relating to the company in order to be able to undertake its monitoring duties.
- 2 All Board members have equal rights to information about the company.
- 3 Board activities should, as a rule, be carried out in Board meetings. Board member enquiries shall be submitted to the Board during Board meetings. Board members may send enquiries by e-mail to the Managing Director between Board meetings and send copies to other Board members. Responses to enquiries must be presented to the entire Board simultaneously.
- 4 Enquiries and responses to them must be entered in the minutes. Board members may not obtain information by directly contacting the employees of the company.

## **Article 9. Meetings and minutes**

- 1 The Chairman of the Board of Directors shall ensure that a record of the minutes of meetings of the Board and its decisions is kept.
- 2 The record of minutes shall contain:
  - Where and when the meeting was held.
  - Who attended the meeting and who chaired it.
  - The agenda of the meeting.
  - The conclusions of the agenda items (decisions made, motions presented, postponed, etc.).
  - When and where the next Board meeting will be held.
  - Who recorded the minutes.
  - List of the documents distributed to the Board members.
- 3 The Managing Director or Board members who are not in agreement with a decision by the Board are entitled to have their dissenting opinion entered in the minutes.
- 4 The minutes are to be recorded by the Secretary. He sends a draft copy of the minutes to the Chairman of the meeting for review and approval within three days of the end of the meeting. The minutes must then be sent to Board members within five days of the end of the meeting. In the event that Board members have any comments to the draft, they must notify the Secretary and the Chairman as soon as possible. The final version of the minutes must then be sent together with the meeting documents of the next Board meeting. At the beginning of the next meeting, the changes that may have been made to the minutes since they were sent out are to be described. The minutes shall then be submitted for approval, and the attendees are to confirm the minutes with their signatures.
- 5 The minutes shall be signed by the Board members attending and the Managing Director and Secretary of the meeting. Minutes are considered full proof of all that transpired in Board meetings. Board members who did not attend the Board meeting to which the minutes apply shall confirm with their signature that they have read the minutes. A copy of the signed minutes is to be available in the electronic data room.

## **Article 10. Obligation of confidentiality**

- 1 Board members are bound by professional secrecy as regards the affairs of the company and that of companies invested in, the affairs of its employees and other issues of which they become aware in their work as members of the Board and which must remain confidential according to the company's Articles of Association, laws or by their nature, unless the matter in question is something that the Board decides to make public or where such disclosure is provided for in legal provisions or the company's Articles of Association. The obligation of professional secrecy remains in effect after cessation of tenure.
- 2 If a member of the Board violates the obligation of confidentiality or abuses in other respects the trust invested in him, the Chairman shall reprimand him and call a shareholders' meeting which will decide whether to elect a new Board member in the event that the violation is serious or repeated.
- 3 Board members must preserve all data in a secure manner that they receive due to their work as Board members.
- 4 As a rule, Board members should not express themselves to the media or the general public as regards the affairs of the company.

## **Article 11. Disqualification**

- 1 A Board member and/or Managing Director may not participate in agreement negotiations between the company and themselves as regards legal action against themselves or the preparation of an agreement between the company and a third person or legal proceedings against a third person if they have considerable interests to safeguard and which might be in conflict with the company's interests. Board members and the Managing Director are under obligation to notify of such circumstance, and others which may cause their disqualification, without delay. The Board decides whether Board members, one or more, should be disqualified from addressing a case.
- 2 All agreements that a Board member and/or the Managing Director may enter into with the company, as well as all agreements between the company and a third party if a Board member and/or Managing Director has a significant interest in such agreement that could contravene the interests of the company, must be submitted to the Board for approval or rejection.
- 3 If the decisions of the Board relate to the affairs of individual Board members, such decisions are to be made by the Board members that are also independent of the company. The Board members in question should leave the meeting while the Board addresses such issues.
- 4 In the event that Board members are disqualified from addressing issues that are on the agenda of the meeting, they must leave while such issues are discussed and processed. Access to the electronic data room in such cases is to be controlled in such a manner that the Board member is not granted access to the documents that cover the issue that has led to that member's disqualification. The fact that the Board member has left the meeting, the reason for leaving and that he may not have access to the documentation must be entered in the minutes.

## **Article 12. Information disclosure**

- 1 The Managing Director shall, at each Board meeting, provide the Board with a general report on the operation of the company since the previous Board meeting. The examined six-month financial statements are to be submitted to the Board no later than at the end of September each year. The audited annual financial statements are to be completed by the end of March each year. The auditors of the company are to be present during the presentation of the six-month financial statements and the annual financial statements. The Board shall decide the frequency with which the Managing Director presents interim financial statements.
- 2 The Board may, during meetings, request information from the Managing Director and other key employees of the company that is necessary for the Board to complete its tasks.
- 3 The information from the Managing Director and sub-committees submitted to the Board needs to be in the form and of the quality determined by the Board. Information and data are to be available to members of the Board in good time for Board meetings and between such meetings. All Board members must receive the same information. Moreover, information must be as up-to-date and accurate as possible.
- 4 The report of the Board of Directors must accompany the annual financial statements. The report shall provide information on issues that are important for the assessment of the financial position of the company and its results during the financial year and which is not stated in the balance sheet or income statement or in the notes thereto. The report of the Board of Directors, moreover, covers important issues that have surfaced after the close of the accounting year and the future prospects of the company.

- 5 The Chairman of the Board must ensure, cf. Article 1.2, that the information on the company's governance, cf. Article 2.2 on Corporate Governance Guidelines, is accessible on the website of the company.
- 6 The Chairman of the Board shall ensure that the Companies Registry, Financial Statements Registry, tax authorities and other public authorities are sent the mandatory notifications and returns.

### **Article 13. Signing annual financial statements, etc.**

- 1 The company's annual financial statements must be submitted to the Board for discussion. The Board, together with the Managing Director, shall sign the annual statements one week prior to the Annual General Meeting. If a member of the Board or the Managing Director is of the opinion that the annual statements should not be approved or should he raise objections which he considers necessary to bring to the attention of the shareholders, he is required to give an account of his objections in his report.

### **Article 14. Reception and orientation of new Board members**

- 1 When a new Board member accepts a seat on the Board of Directors, he shall receive detailed information on the company and its operations, including the legislative and regulatory environment, governance, organisational structure, minutes of the meetings of the Board of Directors from the preceding year, financial information and operating and investment plans.
- 2 New Board members must be provided, as soon as possible, with access to the documentation they need to be able to carry out their work for the company. New members may request an introductory meeting with the Managing Director and Chairman of the Board before beginning work, in order to obtain information and guidance on the operating practices of the Board and the affairs of the company. Other members of the Board, moreover, are to be given the option of attending that introductory meeting.

### **Article 15. Further rules on the work of the Board**

- 1 Board members must familiarise themselves with and be bound by the provisions law, general rules on public limited companies and the company's special rules on the treatment of confidential information.

**Thus approved at the Board meeting of Isavia ohf. on 27 March 2018.**

Ingimundur Sigurpálsson  
Helga Sigrún Harðardóttir

Ólafur Þór Ólafsson

Margrét Guðmundsdóttir  
Matthías Imsland

## **Annex to the rules of procedure for the Board of Directors of Isavia ohf. Definition of measures considered unusual or extraordinary**

Measures that are unusual or extraordinary fall within the Board's scope of authority, since such measures are not a part of the company's daily operations. The Managing Director, however, may employ measures that are unusual or extraordinary that do not fall under daily operations if such measures are taken in accordance with authorisation thereto from the Board. The Managing Director may make comparable decisions in the event that it is impossible to wait for the decision of the Board without significant disadvantage to the company. The Board shall be immediately notified of such measures.

Examples of measures that can be considered unusual or extraordinary:

- Legal instruments that involve significant financial interests for the company, i.e. ISK 100,000,000 (one hundred million) or more, with the exception of legal instruments that relate to the purchase and sale of goods and/or services and are a part of the normal operations of the company and contain normal provisions based on the scope of the transaction.
- Legal instruments intended to remain in effect for a long time, i.e. five years or more.
- Operating and investment plans approved annually by the Board. In the event that it becomes clear that the total operating costs or total investments will exceed plans by more than 5%, a new plan will have to be submitted to the Board for approval.
- Significant changes planned to the normal operation of the company, such as fundamental changes to the organisation or operation.
- Purchases, sales pledging of real property and other assets for more than ISK 100,000,000.
- Granting guarantees to third party who is not a member of the Group.
- Sale or dissolution of a subsidiary.
- Decisions on whether to request moratorium on payments, go into administration or apply for liquidation proceedings for Isavia ohf.

Thus approved at the Board meeting of Isavia ohf. on 27 March 2018.

Signature of Board of Directors and Managing Director:

Ingimundur Sigurpálsson  
Helga Sigrún Harðardóttir  
Ólafur Þór Ólafsson

Margrét Guðmundsdóttir  
Matthías Imsland  
Björn Óli Hauksson