

REGULATION

on Selection and Sale of Alcohol and Trade Terms with Suppliers

CHAPTER I

Article 1

Purpose

The purpose of this Regulation is to define and explain the product choices of the State Alcohol and Tobacco Company of Iceland (ÁTVR), which are based on ÁTVR's product selection policy, the provisions of Act No. 86/2011 on Trade in Alcohol and Tobacco, the Alcohol Control Act No. 75/1998, as amended, and the government's alcohol policy as current at any time.

Sales categories, product selection classes and product classes, which are used to control product availability in liquor stores and ensure a wide selection of products that meets the needs and wishes of consumers, are defined on the basis of the product selection policy. Sale decisions are based on sales performance, measured on a gross margin basis.

The Regulation describes the requirements for products, the packaging and labelling of products, and other matters. The trade terms section explains the process for submitting applications for the sale of alcoholic beverages and concluding contracts for the purchase and ordering of products. The Regulation covers delivery terms, liability of suppliers, prices and terms of payment.

ÁTVR shall seek to ensure that its products are produced in accordance with international rules and the Code of Conduct attached as Annex 2 hereto.

Article 2

Definitions

Type of alcoholic beverage: Product(s) with substantially the same ingredients and packaging, although there may be small variations between units.

Gross margin: The difference between the sale price and purchase price without VAT.

Gross margin list: List of product margins over a 12 month period.

Sales category: Assignment of product in category according to its availability in liquor stores.

Brand: A product that is different from other products and is assigned a special number in lists.

Product class: Classification of products with certain shared characteristics, designed to ensure a wide and comprehensive selection of products across different liquor stores and to increase the diversity and quality of available products in general.

Product offering: Products available in liquor stores.

Product selection: Selection of products for sale.

Product selection class: Classification of products used in determining which products are made available in liquor stores. The classification is mainly based on ingredients, production method and type of packaging.

Article 3

Product selection policy

ÁTVR shall seek to ensure that its selection of products is wide-ranging, of high quality and consistent with customer demand and expectations.

ÁTVR shall select products with a view to promoting responsible consumption and handling of alcohol. Product selection shall be based on the objectives of the Act on Trade in Alcohol and Tobacco.

CHAPTER II
Article 4
Sales categories

Alcoholic beverages are divided into four sales categories: Trial range, basic range, month's specialties and specialties.

Article 5
Trial range

The trial range is intended for products on trial sale in liquor stores.

Liquor stores that sell products in the trial range are listed in sub-paragraph d) of Annex 1. The trial period is 12 months. In the event that an application for the trial sale of a product cannot be received due to a backlog of applications waiting to be processed, the supplier can place the product on a waiting list.

If a brand in the trial range achieves the reference gross margin referred to in the second paragraph of Article 15 hereof, it shall be upgraded to the basic range.

A product that is not upgraded to the basic range shall be removed from the trial range on the expiry of the 12 month trial period.

A product which has been removed from the trial range shall not be reinstated in the trial range before 12 months have passed.

Article 6
Basic range

The basic range is the main sales category. The basic range is intended to ensure the availability of products that are in the greatest demand. Products in the basic range are given priority in the distribution of products to outlets.

The basic range shall be reviewed every four months in conjunction with a review of the product offering in outlets.

A product is removed from the basic range if it fails to achieve the reference gross margin referred in the second paragraph of Article 15 hereof within a 12 month period.

A product which has been removed from the basic range can be moved to the specialties category at the discretion of ÁTVR or be put on trial sale when the stocks held by ÁTVR have been sold out.

Article 7
Month's specialties

The month's specialties category is intended for seasonal products. For a product to be eligible for the month's specialties category, the product must be produced on a seasonal basis or traditionally intended for sale during a specific season of the year.

The seasons are as follows: Thorri, the period of Lent and Christmastime. The sales period for Thorri runs from Husband's Day to Wife's Day. The sales period for Lent runs from Ash Wednesday through Holy Week. Christmas sales begin on 15 November and end on 6 January. Distribution is carried out at ÁTVR's discretion.

Article 8
Specialties

The specialties category is intended to support the product selection policy by increasing the variety and quality of the products on offer to ensure that they meet the needs and wishes of customers. Products in the specialties category may be sold for a limited time even if they are not categorised as seasonal products.

Article 9
Placing of a product in the specialties category

To be placed in the specialties category, a product must generally have been placed in the trial or basic range and then removed from those sales categories in accordance with the applicable rules. A supplier may submit a reasoned request for the placing of a product in the specialties category within one month of a notification of the removal of the product from the trial or basic range. ÁTVR must accept the supplier's reasons before a product can be placed in specialties category. It may reject the request on the following grounds:

- a. if comparable products with a higher gross margin and/or of a higher quality are already on offer;
- b. if the quality of the product is insufficient;
- c. if the selling price of the product is too high in relation to its quality;
- d. if suppliers are unable to ensure the availability of the product;
- e. if creating a new product class for the type of product being offered cannot be justified.

Under Article 3 hereof, ÁTVR can place a product in the specialties category even if a request was not submitted by a supplier and the product was not previously listed in the trial or basic range categories.

Article 10
Distribution of products in the specialties category

In the event of the unavailability of a basic range product in a particular product class which, according to the second paragraph of Article 16 hereof, is intended for general distribution, such product should be replaced by a product in the trial range or specialties categories.

Distribution of products to meet the special demand of outlets for specific product classes shall be based on which specialties products in the relevant classes have the highest gross margin.

Specialised distribution is for outlets that offer a more particular selection of products in certain product classes (beer, strong liquor, wines). Distribution shall be carried out in accordance with the second paragraph of Article 16 as well as the Folds Document. ÁTVR may make exceptions for specific products, for instance it may limit the distribution of the most expensive brands.

Article 11
Product comparison

In comparing products competing for distribution, consideration is given to gross margin, quality and the distribution of equivalent products in the specialties category.

ÁTVR may decide to select or reject a project on the basis of quality. In managing distribution, ÁTVR may decide to correct an imbalance resulting from prior distribution.

In comparing individual products regardless of competition, consideration is given to gross margin and demand, changes in quality, e.g. as a result variations between vintages and product changes, and supply.

Article 12
Other products in the specialties category

Other products in the specialties category include:

- a. Seasonal products of various varieties that do not belong in the month's specialties category and products purchased in limited quantities.
- b. Products in gift packaging, with or without accessories.

Article 13
Special orders

Products that are not covered by Articles 4-12 may be specially ordered. Specially ordered products may not be returned unless they are considered unusable because of a defect.

ÁTVR may decide that the person placing a special order shall provide security to cover the purchase and transportation of the special order. The amount of the security shall be repaid if the product is unavailable.

CHAPTER III
Article 14
Local zones

The purpose of local zones is, firstly, to enable outlets to meet local demand for products produced outside the greater Reykjavik area, and secondly, to make it easier for producers to market their products in their local area.

A local zone includes one local outlet, which is the outlet geographically closest to the producer, and two proximate outlets, selected by the producer from a list of nearby outlets proposed by ÁTVR.

The local outlet offers all the products of a producer which are sold by ÁTVR. A proximate outlet offers up to four products which would not normally be carried by that outlet, to be selected by the producer regardless of sale category. Producers can use local zones to introduce products that are not available in other ÁTVR stores.

On its supplier webpage, ÁTVR publishes a list of producers' local outlets and its proposed proximate outlets. The list also shows which proximate outlets have been selected by producers.

CHAPTER IV
Article 15
Product selection classes, gross margin and product classes

Products are placed in product selection classes according to ingredients and production method, type of packaging and shelf life. Product selection classes are used to determine which products in the basic range are offered in outlets. ÁTVR can change the definition of product selection classes and gross margin benchmarks. Such changes shall be based on the product selection policy set out in Article 3 hereof.

ÁTVR shall maintain a product selection class table and a list of gross margin benchmarks for basic and trial range products and publish them on its website or otherwise make them available to suppliers.

The product selection table shall be reviewed in January and July each year. However, ÁTVR may change the product selection classes at other times if justified by special circumstances. All changes shall be published two months in advance of implementation.

Once a month, ÁTVR shall publish a list of the gross margins of brands in the basic, trial and specialties categories on its supplier website. The gross margin list shows total sales over the preceding twelve months for each product selection class. Brands shall be listed in order of gross margin. ÁTVR's total sales shall be used in calculating gross margins.

ÁTVR shall create product classes and publish them on its website in a verifiable manner. Product classes are intended to support the product selection policy. The selection of products in the specialties category and increased selection of outlets shall be determined on the basis of product classes. In conjunction with the review of the product offering of outlets, ÁTVR shall publish a list of product classes and their scheduled distribution based on outlet size.

CHAPTER V

Article 16

Categorisation of outlets and product selection

Outlets are divided into three categories: small outlets, regional outlets and large outlets, cf. Annex 1. If warranted, ÁTVR can change the number of brands sold in outlets as well as the categorisation of outlets.

The product offering of an outlet depends on its size. Each size category offers a specific set of products, so-called folds. Folds are made up of products which are distributed to the same type of outlet. Products are placed into folds based on sales performance, which is determined based on the gross margin list, as well as the product classes associated with the fold in question, which can be seen in the product selection table.

The product offering of outlets shall be reassessed in January, May and September each year, and new product offerings shall be implemented in February, June and October. Product offerings shall be reassessed on the basis of the gross margin list for the corresponding month of the preceding year. Basic range product selection classes shall be completed with products in the product selection table which have the highest gross margins according to the gross margin list.

Article 17

Increased selection of products

ÁTVR can increase the selection of products in outlets beyond what is stated in this Article in order to better comply with the provisions of the product selection policy. Product selection shall be increased with a view to ensuring that the product offering of an outlet is sufficiently comprehensive, e.g. having regard to the size of the outlet. General demand is met by supplying the highest selling products and sufficient variety is ensured with product classes. Demand that is more limited may be met by increasing the product selection on a regional or temporary basis.

In the event that a staple product is unavailable from the supplier for a period of at least 15 days, ÁTVR may add the next comparable product on the product selection list to the product offering. In such an event, the added product will be offered for the duration of the current product selection period.

Variety is ensured by offering product classes which are considered appropriate in view of the size of the outlet. The product class list shows which product classes are appropriate for the different sizes of outlets. Information about increased product selection is published in the product selection list when product selections are reviewed.

Demand specific to particular areas may be met by specifically increasing the product selection of an outlet and using local zones. ÁTVR is in charge if increasing the product selection of an outlet.

Temporary demand may be met by increasing product selection on a temporary basis. ÁTVR is in charge of increasing product selection on a temporary basis. The temporary sale of products may be authorised, including the sale of products in the trial range in outlets which generally do not sell products of that type.

Increased selection of products is temporary and shall be reviewed at least as frequently as the general product offering of outlets.

CHAPTER VI

Article 18

Supply contract and application for sale

ÁTVR and a supplier, who is authorised to sell alcoholic beverages in wholesale, shall enter into a special supply contract. The supply contract is a comprehensive agreement and covers all purchases made by ÁTVR from the supplier. By signing the supply contract, the supplier undertakes to comply in every respect with the laws and administrative instructions governing purchases and sale of alcohol beverages by ÁTVR.

In the event that the seller fails to meet his contractual obligations, enters into bankruptcy or becomes otherwise insolvent, ÁTVR may terminate the entire agreement without notice and compensation.

For an application for sale to be considered valid, it is necessary to submit product certification and a sample of the product, at least 500 ml and external retail packaging where applicable. In the case of expensive product units, ÁTVR can postpone or waive the requirement to provide a sample. Product samples submitted in connection with an application will not be returned.

ÁTVR will give its response within three weeks from the submission of a valid application. If the application or supporting documents are found lacking or if the application is rejected, the supplier shall be informed of the deficiencies and given an opportunity to make remedies and submit objections.

Article 19

Purchasing contract

A special electronic purchasing contract will be made following an application for the sale of a product in respect of each individual product. The purchasing contract includes references to provisions of the supply contract, which apply as appropriate.

The purchasing contract shall specify the date of first delivery of the product to ÁTVR and the time at which the selling of the product is to commence. In the event that the product is not delivered within 60 days from the date of the order, ÁTVR may terminate the purchasing contract and cancel all undelivered orders.

A purchasing contract for the purchase of a product in the trial range shall be made at least one month prior to commencement of the sale of the product. If the parties are unable to reach an agreement prior to that time due to the supplier's indifference, the supplier's application for the sale of the product is rendered invalid. If a product which is to be sold on a trial basis is not delivered at least 4 days prior to the commencement of sale according to the purchasing contract, the purchasing contract will be cancelled. Suppliers may request that the commencement of the sale of a product be postponed due to extraordinary circumstances.

When a product in the trial range meets the necessary conditions to be upgraded to the basic range, the amount of any unsold units of the product that ÁTVR will buy shall depend on the contract between the supplier and ÁTVR.

Article 20
Product changes

A product may not be changed without the consent of ÁTVR. Changes in a product include, without limitation, alterations in the contents of the product, including the amount of alcohol by volume, changes in pasteurization, size and appearance of packaging or type of sale unit. Suppliers must deliver a sample of the altered product to ÁTVR before it can be accepted, e.g. if the supplier wishes to supply a new vintage of wine. ÁTVR reserves the right to require suppliers to provide samples at least once every three years.

CHAPTER VII
Article 21
Products and packaging

The supplier is responsible for ensuring that the contents of the product, its labelling, visual imagery and packaging conform to the rules of the country of origin and Icelandic laws and regulations on food products.

The packaging of each sale unit shall prominently display the following information:

- a. Name of product
- b. Product class
- c. Quantity (in litres)
- d. Alcohol content (by volume)
- e. Lot number
- f. "Best before" date
- g. Name and address of person responsible in the European Economic Area
- h. Information about the use of sulphur dioxide and allergens and irritants, where appropriate

Any product labelled as organic must have appropriate certification.

Each sales unit shall be labelled with an EAN or UPC barcode. ÁTVR shall reject any product with a duty free label.

It is permissible to hang a label on bottles, giving recipes or promotion of the product or producer. Attached labels shall not cover general product labelling, cause inconveniences in the handling of the product or hinder sales.

It is permissible to offer products packed together or packaging that includes objects related to the use of the product, such as glasses or bottle openers.

Cans shall have attached tabs.

If deemed necessary, ÁTVR may require a supplier to provide information confirming the origin of the product.

Article 22
Packaging and labelling

Packaging and labelling may only contain information related to the product and its characteristics. ÁTVR will not accept products if their packaging includes text or visual imagery which:

- a. indicate a lower legal drinking age than prescribed by law or which can attract children and teenagers, e.g. through illustrations and slogans;
- b. encourage alcohol consumption or relate to circumstances where the consumption of alcohol is not appropriate or can be hazardous;

- c. contain manipulative or unreasonable information or suggest that alcohol enhances physical, mental, social or sexual function;
- d. are of an offensive nature or otherwise violate public morality, e.g. with reference to violence, religion, illegal drugs, political views, discrimination or criminal conduct, etc.;
- e. include a lottery or offer or which can otherwise be considered likely to increase consumption.

ÁTVR may reject a product that is very similar to another product on the market.

ÁTVR may reject a product that contains caffeine or other stimulants.

Products may be rejected if they are delivered in sensitive or unconventional packaging or if special arrangements are required for stocking the product on shelves. ÁTVR will decide whether the above conditions have been met by looking at packaging, bulk, available space in outlets and price.

Article 23 *Form of packaging*

Packaging shall meet the following conditions:

- a. The liquid volume of a product shall be more than 50 millilitres and a maximum of 5 litres. ÁTVR may accept packaging made of several sub-components of less than 50 ml in volume each, provided that the combined volume of all the sub-components exceeds 50 ml and they are sold together as one unit.
- b. ÁTVR will generally accept the following types of packaging: Glass or clay bottles; aluminium cans with attached tabs; aluminium bottles; boxed wines (paper box containing an aluminium or plastic bag with non-return cap); cartons, such as tetra-pak; plastic bottles (polycoated); kegs with taps.
- c. The liquid volume of a carton or box shall be at least 500 ml and no more than 3000 ml.

Packaging other than the above requires the approval of ÁTVR.

Article 24 *Delivery*

Each order shall be delivered separately together with a delivery slip to the warehouse of ÁTVR at Studlaháls in Reykjavík. Under special circumstances, however, ÁTVR may arrange another delivery location with the supplier.

Invoices shall be delivered to ÁTVR one day prior to delivery.

A product that is labelled “best before” shall have at least 3 months’ shelf life when it arrives in the warehouse of ÁTVR. In special cases ÁTVR may allow a shorter shelf life.

There shall be a bar code, distinct from the bar code for each sales unit, on each box. A product which is not delivered in its original packaging may be delivered in an unlabelled box.

If the quantity being delivered is more than the amount handled on a goods pallet in one load, the product shall be delivered on a EUR pallet. The value of the pallet shall be included in the price of the product. The maximum height of product and pallet shall be 150 cm. If the pallet load is more than 70 cm high, the product shall be wrapped in plastic.

Each order shall be marked with the delivery number of ÁTVR on the plastic wrapping, carton or goods pallet.

The delivery slip may be electronic, such as a barcode with delivery number. The same product shall not be delivered in different packaging under the same delivery number.

In the event of non-compliance with the provisions of this Article, ÁTVR may refuse to accept delivery of a product.

CHAPTER VIII

Article 25

Liability

The supplier shall collect and reimburse payment on receipt of any product that is unsaleable because of a defect in packaging or contents.

If the supplier does not accept return of a defective product, ÁTVR reserves the right to demand storage charges for the product in question. ÁTVR is authorized to have the product destroyed at the cost of the supplier when two weeks have passed since the supplier was notified that he should take the product back. Deducting this cost from the profit from sales is authorised.

Article 26

Price and terms of payment

The price quoted by a supplier shall include the alcohol tax and deposit charge.

The mark-up added by ÁTVR is governed by Act No. 86/2011 on Trade in Alcohol and Tobacco.

Value added tax is added to price quoted by suppliers and the mark-up of ÁTVR. The final selling price shall be rounded up to the nearest króna.

Those parties who offer products for trial sales or monthly specialties shall be obligated to loan ÁTVR the product for the period of the sale. ÁTVR shall pay creditors for sold products no later than 10 days after the end of the sale month. Suppliers shall be obligated to take back any products that remain unsold at the end of the sale period within 4 days.

At a minimum, ÁTVR shall be given until the following date of payment of supplies to pay for products in the basic range and specialties categories; the date of payment of supplies is the 16th or last day of the month. In the event that the date of payment falls on a holiday, the next working date shall be considered the date of payment.

ÁTVR shall publish a price list on its website. Changes in the price of products sold by ÁTVR will generally take effect on first day of each month. ÁTVR shall be notified in writing of any changes in price no later than the twentieth of the month before the day of the price change.

Suppliers may notify changes in their prices to ÁTVR once a month. ÁTVR will decide when a change in the selling price of products it owns will take effect. ÁTVR may reject a supplier's request for a change in the price of products owned by ÁTVR.

If a supplier changes the price of a product in the trial range, settlement of units already sold shall be completed, unsold units shall be removed from the inventory and then relisted according to the supplier's invoice at the new price. The sale of the product may not resume until these arrangements have been completed.

CHAPTER IX

Article 27

Price offers

Should ÁTVR receive an offer of a better price for the product than the contracting party is offering, ÁTVR shall notify the supplier from whom the product has been bought that another supplier has made an offer for the same product. At the same time the existing purchasing agreement shall be cancelled with 90 days' notice.

A price offer shall be requested from the existing supplier and from the supplier offering the new price, provided that he can assure a continuous supply of the product over a period of at least one year. The new supplier is obligated to offer a price at least as low as that which he originally offered.

A price offer will only be considered if the supplier:

- a. demonstrates his ability to supply the product over a period of at least 12 months;
- b. submits a proof of origin;
- c. provides a sample;
- d. submits his delivery history, if available.

Provided that the above conditions are fulfilled, a purchasing contract shall be concluded with the supplier offering the lower price. After 90 days the sale of the product shall commence on the basis of the new purchasing contract.

The supplier may not raise the contract price until 90 days after the new purchasing contract enters into effect.

Consideration will not be given to price offers from suppliers in respect of products which have been in the basic range for less than 6 months. This time limit is not applicable should the product turn out to be unavailable from the supplier that ÁTVR has been dealing with. Price offers will not be requested more than once in a 12 month period in respect of the same product.

CHAPTER X

Article 28

Entry into force

This Regulation, which is issued on the basis of Article 11 of Act No. 86/2011 on Trade in Alcohol and Tobacco, replaces Regulation No. 631/2009 on Selection and Sale of Alcohol and Trade Terms with Suppliers, and shall be effective immediately.

The Ministry of Finance, 8 July 2011.

For the Minister

Gudrún Thorleifsdóttir.

Gudmundur Jóhann Árnason

ANNEX 1
Categorisation of Outlets

On the entry into force of this Regulation, the number of brands carried by outlets is as follows:

- a. Small outlets carrying at least 100 brands include the liquor stores in Búdardalur, Djúpavogur, Fáskrúdsfjörður, Flúdir, Grundarfjörður, Hólmavík, Hvammstangi, Kirkjubæjarklaustur, Seyðisfjörður, Vík, Vopnafjörður, Thorlákshöfn and Thórshöfn. Small outlets carrying at least 200 brands include the liquor stores in Blönduós, Dalvík, Grindavík, Húsavík, Hvolsvöllur, Höfn, Neskaupstadur, Ólafsvík, Patreksfjörður, Reydarfjörður, Siglufjörður and Stykkishólmur.
- b. Regional outlets include the liquor stores in Akranes, Borgarnes, Egilsstaðir, Hveragerði, Ísafjörður, Sauðárkrókur and the Westman Islands. They carry at least 300 brands.
- c. Large outlets carry at least 600 brands. They include the liquor stores in Akureyri, Kópavogur (Dalvegur and Smáralind), Hafnarfjörður, Keflavík, Mosfellsbaer, Reykjavík (Austurstræti, Borgartún, Heidrún, Kringlan, Skeifan, Skútuvogur, Stekkjarbakki), Selfoss and Seltjarnarnes.
- d. All brands in the trial range are available in the Heidrún, Kringlan and Skútuvogur outlets. For more details please see the *Outlets Folds Document*, which is available on the ÁTVR website.

ANNEX 2 Code of Conduct

1. Legal Compliance

All applicable laws and regulations, industry minimum standards, ILO and UN Conventions, and any other relevant statutory requirements, whichever requirements are more stringent, shall be observed. In the agricultural context, ILO Convention 110 shall be respected.

2. Freedom of Association and the Right to Collective Bargaining

All personnel shall have the right to form, join, and organise trade unions of their choice and to bargain collectively on their behalf with the company. The company shall respect this right, and shall effectively inform personnel that they are free to join an organisation of their choosing and that their doing so will not result in any negative consequences to them, or retaliation, from the company. The company shall not in any way interfere with the establishment, functioning, or administration of such workers' organisations or collective bargaining. In situations where the right to freedom of association and collective bargaining are restricted under law, the company shall allow workers to freely elect their own representatives. The company shall ensure that representatives of workers and any personnel engaged in organizing workers are not subjected to discrimination, harassment, intimidation, or retaliation for reason of their being members of a union or participating in trade union activities, and that such representatives have access to their members in the workplace.

(In accordance with ILO Conventions 11, 87, 98, 135 and 154.)

3. Prohibition of Discrimination

No discrimination shall be tolerated in hiring, remuneration, access to training, promotion, termination or retirement based on gender, age, religion, race, caste, birth, social background, disability, ethnic and national origin, nationality, membership in workers' organisations including unions, political affiliation or opinions, sexual orientation, family responsibilities, marital status, or any other condition that could give rise to discrimination.

(In accordance with ILO Conventions 100, 111, 143, 158, 159, 169 and 183.)

4. Compensation

Wages paid for regular working hours, overtime hours and overtime differentials shall meet or exceed legal minimums and/or industry standards. Illegal, unauthorised or disciplinary deductions from wages shall not be made. In situations in which the legal minimum wage and/or industry standards do not cover living expenses and provide some additional disposable income, supplier companies are further encouraged to provide their employees with adequate compensation to meet these needs. Deductions from wages as a disciplinary measure are forbidden, unless this is permitted by national law and a freely negotiated collective bargaining agreement is in force. Companies shall ensure that wage and benefits composition are detailed clearly and regularly for workers; the company shall also ensure that wages and benefits are rendered in full compliance with all applicable laws and that remuneration is rendered in a manner convenient to workers.

All overtime shall be reimbursed at a premium rate as defined by national law. In countries where a premium rate for overtime is not regulated by law or a collective bargaining agreement, personnel shall be compensated for overtime at a premium rate or equal to prevailing industry standards, whichever is more favourable to workers' interests.

(In accordance with ILO Conventions 12, 26, 101, 102 and 131.)

5. Working Hours

The company shall comply with applicable national laws and industry standards on working hours and public holidays. The maximum allowable working hours in a week are as defined by national law but shall not on a regular basis exceed 48 hours and the maximum allowable overtime hours in a week shall not exceed 12 hours. Overtime hours are to be worked solely on a voluntary basis and to be paid at a premium rate. In cases where overtime work is needed in order to meet short-term business demand and the company is party to a collective bargaining agreement freely negotiated

with worker organisations (as defined above) representing a significant portion of its workforce, the company may require such overtime work in accordance with such agreements. Any such agreement must comply with the requirements above.

An employee is entitled to at least one free day following six consecutive days worked.

Exceptions to this rule apply only where both of the following conditions exist:

5.1. National law allows work time exceeding this limit; and

5.2. A freely negotiated collective bargaining agreement is in force that allows work time averaging, including adequate rest periods.

(In accordance with ILO Conventions 1 and 14 and ILO Recommendation 116.)

6. Workplace Health and Safety

The company shall provide a safe and healthy workplace environment and shall take effective steps to prevent potential accidents and injury to workers' health arising out of, associated with, or occurring in the course of work, by minimising, so far as is reasonably practicable, the causes of hazards inherent in the workplace environment, and bearing in mind the prevailing knowledge of the industry and of any specific hazards.

A clear set of regulations and procedures must be established and followed regarding occupational health and safety, especially the provision and use of personal protective equipment, access to clean toilet facilities, access to potable water and if appropriate, sanitary facilities for food storage shall be provided. The company shall ensure that any dormitory facilities provided for personnel are clean, safe, and meet the basic needs of the personnel.

All personnel shall have the right to remove themselves from imminent serious danger without seeking permission from the company.

Workplace practice and conditions in dormitories which violate basic human rights are forbidden. In particular young workers shall not be exposed to hazardous, unsafe or unhealthy situations.

(In accordance with ILO Conventions 155, 184 and ILO Recommendations 164 and 190.)

In particular, a management representative responsible for the health and safety of all personnel and accountable for the implementation of the Health and Safety elements of the BSCI shall be appointed. All personnel shall receive regular and recorded health and safety training, moreover, such training shall be repeated for new and reassigned personnel. Systems to detect, avoid or respond to potential threats to health and safety of all personnel shall be established.

7. Prohibition of Child Labour

Child labour is forbidden as defined by ILO and United Nations Conventions and/or by national law. Of these various standards, the one that is the most stringent shall be followed. Any forms of exploitation of children are forbidden. Working conditions resembling slavery or harmful to children's health are forbidden. The rights of young workers must be protected. In the event that children are found to be working in situations which fit the definition of child labour above, policies and written procedures for remediation of children found to be working shall be established and documented by the company. Furthermore, the company shall provide adequate financial and other support to enable such children to attend and remain in school until no longer a child.

The company may employ young workers, but where such young workers are subject to compulsory education laws, they may work only outside of school hours. Under no circumstances shall any young worker's school, work, and transportation time exceed a combined total of 10 hours per day, and in no case shall young workers work more than 8 hours a day. Young workers may not work during night hours.

(In accordance with ILO Conventions 10, 79, 138, 142 and 182 and Recommendation 146.)

8. Prohibition of Forced and Compulsory Labour and Disciplinary Measures

All forms of forced labour, such as lodging deposits or the retention of identity documents from personnel upon commencing employment, are forbidden as is prisoner labour that violates basic human rights.

Neither the company nor any entity supplying labour to the company shall withhold any part of any personnel's salary, benefits, property, or documents in order to force such personnel to continue working for the company.

Personnel shall have the right to leave the workplace premises after completing the standard workday, and be free to terminate their employment provided that they give reasonable notice to their employer.

Neither the company nor any entity supplying labour to the company shall engage in or support trafficking in human beings.

The company shall treat all personnel with dignity and respect. The company shall not engage in or tolerate the use of corporal punishment, mental or physical coercion and verbal abuse of personnel. (In accordance with ILO Conventions 29 and 105.)

9. Environment and Safety Issues

Procedures and standards for waste management, handling and disposal of chemicals and other dangerous materials, emissions and effluent treatment must meet or exceed minimum legal requirements.

10. Management Systems

The company shall define and implement a policy for social accountability, a management system to ensure that the requirements of this Code of Conduct can be met as well as establish and follow an anti-bribery / anti-corruption policy in all of their business activities. Management is responsible for the correct implementation and continuous improvement by taking corrective measures and periodical review of the Code of Conduct, as well as the communication of the requirements of the Code of Conduct to all employees. It shall also address employees' concerns of non compliance with this Code of Conduct.

B-Section – Date of Issue: 26 July 2011