

RULES

on Selection and Sale of Tobacco and Trade Terms with Suppliers

CHAPTER I

Article 1

Purpose

The purpose of these Rules is to define and explain the product choices of the State Alcohol and Tobacco Company of Iceland (ÁTVR) in accordance with statutory provisions and the demand of purchasers and ensuring producers and suppliers the possibility to have their goods offered for sale in accordance with the provisions of Regulation No. 756/2011 and the overall policy of ÁTVR.

These Rules are established in compliance with the provisions of Regulation No. 756/2011 on the State Alcohol and Tobacco Company of Iceland, the provisions of Act No. 86/2011 on Trade in Alcohol and Tobacco and the provisions of the Tobacco Control Act No. 6/2002. These Rules are established using the same criteria as those set out in the Regulation on Selection and Sale of Alcohol and Trade Terms with Suppliers, as applicable, see Article 7 of Regulation No. 756/2011. The Rules are in conformity with ÁTVR's policy concerning social responsibility that aims at reducing the consumption of tobacco through responsible handling of products and management of the products on the market.

Article 2

Definitions

Sales category: Assignment of a product to a category according to its ranking in the sales supply of ÁTVR.

Product category: Assignment of a product to a category by main characteristics that are related to different production methods.

Type of tobacco: A product made of the same ingredients although specific units can vary by packaging.

Brand: A product so different from other products that it is assigned a unique number and price in the ÁTVR price list.

Article 3

Wholesale of tobacco

ÁTVR has a legal monopoly on the wholesale of tobacco in Iceland. The retail of tobacco is governed by the provisions of the Tobacco Control Act.

All imported tobacco that is intended for processing or sale in Iceland shall be stored by the transporter in a bonded warehouse or in a free zone until requested by ÁTVR for wholesale distribution.

The keepers of tobacco shall not deliver imported tobacco to anyone other than ÁTVR employees.

The keepers of tobacco shall not deliver imported tobacco to ÁTVR until the Director of Customs has given permission for their release. ÁTVR shall provide transporters and the managers of bonded warehouses and free zones with a list of the names of the employees that are authorised to accept delivery of tobacco.

CHAPTER II

Article 4

Sales categories

Tobacco products are divided into four sales categories: Trial range, basic range, specialties and special orders.

Article 5

Product categorisation

Tobacco products in the basic and trial ranges are divided into the following product categories:

1. Snuff
2. Smoking tobacco
 - a. Pipe tobacco
 - b. Other smoking tobacco
3. Cigarettes
 - a. Cigarettes, tar content 0 to as much as 2 mg.
 - b. Cigarettes, tar content 2 to as much as 4 mg.
 - c. Cigarettes, tar content 4 to as much as 6 mg.
 - d. Cigarettes, tar content 6 to as much as 8 mg.
 - e. Cigarettes, tar content 8 to as much as 10 mg.
4. Cigars
 - a. Cigars ≤ 2.5 gr./unit
 - b. Cigars $> 2.5 \leq 3.5$ gr./unit
 - c. Cigars > 3.5 gr./unit
5. Chewing tobacco

Article 6

Basic range

The basic range covers those brands that have been transferred from the trial range. The basic range is re-assessed every four months, in January, May and September each year, and a new product selection shall be implemented in February, June and October.

Should a brand in the basic range not reach the required minimum percentage of the total sales of the relevant product category, it will fall out of the basic range.

The minimum percentages of total sales are as follows:

Snuff: 4.0%

Pipe tobacco: 4.0%

Other smoking tobacco: 4.0%

Cigarettes: 0.2%

Cigars: 0.2%

The basis of calculations shall be sales for the preceding 12 months. Supplies of brands that have dropped out of the basic range may be sold as products in the basic range.

If two or more brands of the same type of tobacco are offered for sale and neither or none of them reach the required sales proportion but the total sales of the type of tobacco does reach the required sales proportion, the brand that the supplier chooses shall be continue to be listed in the basic range and other brands shall drop out.

Article 7

Trial range

The trial range on average accounts for 50% of all the brands in the product categories that are in the basic range. A product is in the trial range for as long as 12 months. When a product in the trial range

period has reached the required minimum percentage of the total sales of the relevant product category, it shall be transferred to the basic range.

A product that does not reach the required minimum percentage of the total sales of the relevant product category in the trial range period shall be discontinued in the trial range. The basis of calculations shall be sales for the 12 full months preceding the last month of the sales period. Sales shall be compared with the total sales of the product category during the same period.

The minimum percentages of total sales are as follows:

Snuff: 4.0%

Pipe tobacco: 4.0%

Other smoking tobacco: 4.0%

Cigarettes: 0.2%

Cigars: 0.2%

A product that drops out of the trial range pursuant to the third paragraph of Article 6 will not be tried again before at least 12 months have passed since sale of that product was discontinued.

ÁTVR may limit the number of brands in each sales category sold in the trial range or listed on the trial range waiting list.

Article 8

Specialties

The specialties category includes products purchased to increase the variety of cigarettes, pipe tobacco and other smoking tobacco products. ÁTVR decides which tobacco brands are offered in the specialties category. Sales of specialties are not counted when sales results are assessed for the basic or trial range categories.

Article 9

Special orders

Tobacco products that do not fall under the categories referred to in Articles 6, 7 and 8 may be specially ordered.

Special orders of snuff must be accompanied by a confirmation of the product's compliance with Article 6 of Regulation No. 325/2007 on the Retail of Tobacco.

ÁTVR places special orders for tobacco from free zones or from domestic suppliers for individuals' own consumption. Specially ordered products may not be returned unless they are considered unusable because of a defect.

Tobacco may only be made available for sale or distribution if a warning appears on the packaging regarding the harmfulness of the product. ÁTVR shall ensure that products are labelled.

Sales of specially ordered products are not counted when sales results are assessed for the basic or trial range categories.

CHAPTER III

Article 10

Supply contract and application for sale

ÁTVR shall conclude supply contracts with suppliers concerning purchases of products. The supply contract is a comprehensive agreement which 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 tobacco products 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.

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 11

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 will include 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 sale of a product on a trial basis 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 contract between the supplier and ÁTVR shall determine how much of the unsold product ÁTVR will purchase.

Article 12

Samples

Samples, two sales units together with product information and product certification, shall be sent to ÁTVR free of charge along with an application for the sale of a product.

ÁTVR may approve samples subject to the addition of warning labels in Icelandic if the first samples are not of the final type. In such event, an image of the final packaging shall accompany the application.

CHAPTER IV

Article 13

Ordering, payment and pricing

Purchasing contracts for products are governed by the provisions of this Regulation. The purchasing contract shall state the purchase price and the manner of delivery.

The price quoted by suppliers to ÁTVR does not include VAT or the tobacco tax. Pricing by ÁTVR includes the assessment of the tobacco tax. VAT is added to the price quoted by suppliers, the tobacco tax and the mark-up of ÁTVR.

ÁTVR shall pay for products in the basic range on the 15th of each month based on invoices issued in the preceding month. Those who offer products for the trial range category oblige themselves to loan ÁTVR their product for the duration of the trial period. ÁTVR pays the supplier monthly, at the latest on the 10th day of the month, for products sold in the preceding month. Suppliers are required to take back those products that remain unsold at the end of the trial period.

If a product is chosen to be transferred to the basic range, the contract between the supplier and ÁTVR shall determine how much of the unsold product ÁTVR will purchase.

The purchasing contract shall specify when sales of the product by ÁTVR shall commence. The order shall be formally confirmed and the confirmation shall include information on the delivery time.

Should ÁTVR not receive confirmation or the product is not ready for delivery from the free zone within 60 days from the date of the order, the contract for the product shall be become void. If a product that is to begin to be sold in the trial range is not ready for delivery from the free zone at least four days prior to the scheduled first date of sales as specified in the contract, the contract shall become void.

CHAPTER VI

Article 14

Labelling and packaging

The labelling and packaging shall conform to Iceland law and regulations, and regulations and standards set by the European Union. Each unit and each carton shall be marked with a bar code, EAN or UPC.

ÁTVR shall ensure that all tobacco products which are imported from abroad or produced in Iceland, whether processed or unprocessed, are labelled. The warning labels on the packaging of tobacco shall comply with the Tobacco Control Act No. 6/2002.

ÁTVR may charge a fee from suppliers if the labelling is unsatisfactory. The fee shall be added to the cost price of specially ordered products, as applicable.

ÁTVR shall endeavour to ensure that its purchasing conforms to international conventions.

ÁTVR will not accept products if their packaging includes text or visual imagery which:

- can attract children and teenagers, e.g. through illustrations and slogans;
- encourage tobacco consumption;
- include a lottery or offer or which can otherwise be considered likely to increase consumption.

Article 15

Product changes

A product purchased by ÁTVR shall not be changed during the term of the contract unless approved by ÁTVR. Any new ingredients, changed size and appearance of packaging and structure of the sales unit shall be considered a change. Suppliers shall submit a formal request if they wish to obtain approval of a changed appearance, size or characteristics of the product.

Article 16

Price change

ÁTVR shall publish a price list on its website. ÁTVR will generally change its retail prices on the first day of each month. ÁTVR shall be notified in writing of any changes in price no later than the twentieth day of the month before the day of the price change.

Article 17

Liability and return of a product

In the event that a supplier delivers a product that is unsellable because of a defect in its packaging or contents, the supplier shall take the product back and repay it upon receipt. Should a supplier fail to collect his product within two weeks from notification that the product should be retrieved, ÁTVR is authorized to have the product destroyed at the cost of the supplier. Furthermore, ÁTVR may deduct the cost of destroying the product from the sale proceeds of the supplier's products.

CHAPTER VII

Article 18

Entry into force

These Rules are hereby confirmed for immediate effect and on their entry into force they repeal Rules No 496/2012, on selection and sale of tobacco and trade terms with suppliers.

The State Alcohol and Tobacco Company of Iceland,

Ívar J. Arndal

With reference to Article 7 of Regulation No. 756/2011 on the State Alcohol and Tobacco Company of Iceland, these Rules are hereby confirmed for immediate effect. These rules have been notified in accordance with the provisions of Directive 98/34/EC laying down a procedure for the provision of information in the field of technical standards and regulations.

Ministry of Finance and Economic Affairs, XXX 2016.

For the Minister

Marianna Jónasdóttir

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