Date: December 2020

Competition Law Policy

Policy owner/ issued by	Approved by	Date issued/reviewed	Effective from	Next review
Chief Legal & Risk Officer and Group Company Secretary	Group Executive Team on behalf of the Board of Directors	December 2020	December 2020	December 2021

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1. Statement of policy on competition compliance

Coats is committed to competing fairly and with integrity.

An indispensable part of this commitment is Coats' policy of observing and complying with all applicable competition laws, rules and regulations wherever it operates around the world. More importantly, Coats is committed to acting at all times to the highest ethical standards, in an open and honest way.

This policy of competition compliance includes observing all applicable competition laws. Any failure to comply with the competition rules, or even suspicion that we or any of our employees or agents have not complied, could have serious adverse consequences for Coats.

It is the fundamental responsibility of all employees and representatives of Coats to read this policy carefully and to ensure that you understand the competition legislative framework within which you operate so that you can conduct yourselves in a manner that complies with the competition rules at all times. Regular reviews of competition compliance will specifically form part of the annual audit of the Group's activities. Employees that are required to complete the Coats online compliance training are required to complete a module of competition training.

This policy is intended to allow Coats to continue to operate in a market in which healthy competition is maintained without infringing the rules. Adhering to this policy and competition laws is vital to the interests of Coats and depends on the full co-operation of its employees and agents. **If you are ever found to have infringed this policy, you will be subject to disciplinary measures which may include dismissal.**

This policy is not intended to be a substitute for specific advice applied to particular situations. If you are ever uncertain about how the law might apply to any discussion, agreement or proposal, **SEEK ADVICE** from your line manager or from the Legal Team, details of which are available on Coats World.

Group Executive Team

2. Essential principles

Competition laws are enforced in over 140 countries around the world. Almost all share common essential principles and prohibit the same types of illegal, anticompetitive behaviour. Coats implements a single global compliance policy based on observing the same high standards wherever it does business. We are also committed to following rules that are specific to particular countries or regions and this Policy is designed to meet all existing local requirements..

2.1 Please read this policy in full and follow the seven key rules below at all times

- Do not enter into any written or oral agreement or understanding with a competitor to fix prices.
- Do not enter into any written or oral agreement or understanding with a competitor to allocate or share customers, markets or territories, or to boycott customers or suppliers.
- Do not discuss or exchange confidential or commercially sensitive information such as pricing or price increase dates with any competitor.
- If you attend a meeting or hear a discussion at which competitors exchange confidential or commercially sensitive information: object, ask them to stop, and leave the meeting if they do not. Immediately afterwards, follow the process set out in the online training and inform your manager, Cluster Managing Director (**CMD**) Coats' Legal Team or follow the disclosure process set out in the Whistleblowing Policy (see Section 3.4 below).
- Do not dictate resale prices to your customers and be careful not to allow brands to stipulate minimum resale prices to their manufacturers.
- Report any competition concerns, however minor they may seem, at the first opportunity.
- When in doubt, seek advice.

2.2 We recommend you re-visit this Policy and that you consult with the Legal Team before undertaking any of the following activities

- Exchanging data with a competitor, exchanging data with a third party for benchmarking or comparison, or participating in industry or trade association standard-setting.
- Joining a trade association.
- Taking part in a joint project, joint bid or other joint venture with a competitor or a customer.
- Granting a supplier, distributor or customer an exclusive contract where Coats is at risk of being dominant in that market (refer to Section 7.1 to identify dominance).
- Agreeing with a supplier or customer that Coats may have an exclusive contract.
- Entering into a patent or know-how licence, a joint venture, a merger, or the acquisition of a business.
- Answering a request for information from a competition authority or government agency.
- Doing or not doing anything that you suspect may raise a competition issue, no matter how minor.

Commit to understanding and implementing Coats' Competition Law Policy.

Breaching this Policy could mean breaking the law.

3. Why the Policy matters

Companies like Coats have a responsibility to make competition compliance part of their culture. Not only is it the best protection against heavy penalties, litigation, and very serious loss of reputation, but it is also good for business and ethically it is the right thing to do.

Coats and its employees can be accused of breaking competition law based solely on the **suspicion** that they may have been involved in anticompetitive conduct. Even if an allegation is eventually disproven, defending the company and rebuilding Coats' reputation will be very costly and will take a considerable amount of time. If the allegation is proven, the consequences are far more serious.

Competition infringements have caused Coats real harm in the past: the company was fined EUR 160.9 million by the European Commission between 2004 and 2007 for price-fixing and market-sharing, both very serious competition law offences. This Competition Law Policy ("Policy") aims to make sure that this never happens again.

3.1 What are the risks?

Fines

- Coats can suffer fines of up to 10% of **worldwide group turnover** for breaching competition law.

Invalid agreements

- Terms and conditions that unlawfully restrict competition **may be void and unenforceable**. In some cases, whole agreements may be rendered invalid.

Actions for damages

- Customers, competitors and other third parties that suffer loss from competition infringements can claim **substantial damages** in court.

Official investigations

- Defending an antitrust or competition infringement investigation is expensive and a drain on **management time and resources**. Investigations also damage Coats' **reputation** which impacts sales, profits and share prices.

Individual prosecution

- In many countries, individuals deemed responsible for breaches of competition law can be subject to individual prosecution. In the US, for example, individuals face penalties of **up to $1 million in fines and up to 10 years in prison**. Under English law, individuals can be given **unlimited fines and/or a prison sentence of up to 5 years** and can be disqualified from serving as a director for up to 15 years.

3.2 What's in it for Coats?

Behaving ethically and following the law are fundamental to how Coats does business. Taking steps to comply with competition law also **reduces the risk of infringements**, and helps the company to respond quickly if a potential infringement is discovered.

The aim of competition law is to create a level playing field in the market. This means that Coats, its competitors, customers and suppliers are all subject to the same rules. By being familiar with these rules, as well as preventing Coats from committing infringements, you can also **be aware of infringements by other companies**. This may stop them from harming Coats or gaining an unfair advantage in the market.

3.3 Implementing the Policy in practice

The success of this Policy depends upon its implementation by all Coats' management, employees in a commercial role and agents. Every manager, employee in a commercial role and agent must be familiar with the Policy since each of these people potentially could implicate the company in an infringement, from senior management to local sales teams.

Implementing this Policy in practice means not only understanding competition risks, but also reporting them as soon as they arise. Recognising a potential breach and taking action quickly can mean the difference between heavy penalties and full immunity. For this reason, **all employees must report any competition concerns – even if they seem minor – at the first opportunity**. Do not ignore or, worse, cover up potential infringements which you, a member of your team, or a third party such as a competitor may have committed. Any employee who wishes to meet with a competitior must inform their manager, Cluster Managing Director (CMD), Coats' Legal Team or follow the disclosure process set out in the Whistleblowing Policy (see Section 3.4 below).

If you read, hear or see something that you think may be improper or illegal, report it to your line manager or follow the disclosure process set out in the Whistleblowing Policy and in Section 3.4 below. Coats will not tolerate negligent or wilful infringements of competition law, including cartel activity and information exchange. Serious breaches of the Policy that go unreported may result in dismissal.

3.4 Whistleblowing Policy

The Whistleblowing Policy is incorporated, by reference, into this Policy and the reporting process should be followed at all times.

In summary, an employee seeking to report suspected fraudulent or corrupt acts as well as unethical or illegal conduct, including competition law breaches, should approach their CMD. In the case of a potential act of fraud or corruption, the incident should be reported to Internal Audit (Head – Group Internal Audit).

Where concerns or allegations involve a CMD , more senior management, or if an employee is not certain which avenue to use to report their concern, then the following principle applies:

- If these acts are suspected to involve a CMD then the relevant senior manager at the next level up e.g. President, Business Operations (PBO) or equivalent, the hemisphere Chief Financial Officer (CFO) or the Head – Group Internal Audit should be contacted.
- If these acts are suspected to involve a PBO, member of the Group Executive Team, or if the employee is uncertain as to whom to contact, the acts should be disclosed to any of the Chief Legal & Risk Officer and Group Company Secretary, the Group Chief Executive, the Chief Human Resources Officer or the Chairman of the Audit & Risk Committee.
- An employee may also report the matter confidentially and, if they choose, anonymously to the Ethics Inbox at ethics@coats.com or the Ethics Concerns Voicemail by dialling +44 20 8210 5088 from any phone.

4. Dealing with competitors

SUMMARY

- **Contact with competitors is the most serious source of competition risk that Coats faces.**
- **It is strictly prohibited to fix any element of pricing with competitors or to share markets or allocate customers.**
- **Exchanging information with competitors, whether orally or in writing, on pricing, market share or customer allocation, is strictly prohibited.**
- **Do not discuss confidential or sensitive information of Coats or of a third party (including customers/suppliers/competitors) with a competitor under any circumstances.**

Contact with competitors is the biggest source of competition risk for most companies and trigger the majority of all competition investigations. The key concerns in this area are cartel-like activities and information exchange.

A cartel is often thought of as a secret agreement between competitors, usually to fix prices. However, **no formal agreement needs to be in place for a cartel to exist**. Unwritten agreements, understandings between competitors and a 'meeting of minds' regarding any factor that affects competition can be the basis for a cartel. As well as pricing, these factors also include the level of sales/output, allocation of customers or territories, and bidding strategies. Each of these is considered in turn in Sections 4.1 - 4.4 below.

Exchanges of information between competitors are viewed as seriously as cartels and are investigated just as aggressively. Competition authorities treat all contacts between competitors as suspicious, and even innocent discussions can be misinterpreted. Specific guidance on information exchange is provided in Section 4.5 below

4.1 Do not enter into any agreement or understanding with any competitor regarding prices

Any agreement or understanding between two or more companies to influence the price of the products that they sell in competition with one another constitutes price-fixing, and is illegal. Coats must establish the prices it charges independently, without consultation with or interference by any competitor.

Never enter into an agreement or understanding, or even discuss, any element of pricing with a competitor. Competition authorities interpret "price-fixing" broadly, and have prosecuted companies for agreeing upon or exchanging information about elements of pricing which are far removed from the end customer's price. The following would all be considered price-fixing and are strictly prohibited:

- Agreeing a common formula or method to calculate prices.
- Agreeing a common asking price or starting/minimum figure in negotiations with customers.
- Establishing uniform or similar discounts or agreeing to eliminate discounts.
- Agreeing to adhere to published price lists, or not to quote a price without consulting competitors first.
- Asking a competitor whether, if Coats were to change its prices, they would do the same.
- Agreeing on the timing or announcement of price changes.
- Announcing a price change in advance and retracting it if competitor(s) do not also change their prices.
- Establishing standard credit, warranty or return policies.
- Agreeing with competitors the prices at which you will procure inputs.

You should **avoid any communication with a competitor about price**. As explained above, competitors do not need to actually implement a common price in order to break competition law – they merely need to discuss any aspect of pricing.

In some cases, Coats either sources inputs from or supplies products to a company with whom we also compete in another market. In this situation, it might be necessary to discuss some pricing information with that competitor. If so, it is very important to exercise caution and **limit any information exchange to what is essential** in the context of your negotiation. Further guidance on this issue is set out in Section 6, below.

4.2 Do not enter into any agreement or understanding to restrict sales, output, input or production

Coats and its competitors must **decide product sales and production levels independently**. Any coordination, agreement or understanding with a competitor to limit production, capacity, output or input breaches competition law.

This applies equally to Coats' current strategy and to more long-term plans. Do not agree or even discuss with competitors details of future investments or market entry, such as:

- Agreeing with competitors to limit or control investments.
- Discussing possible investments that Coats or the competitor are considering.
- Co-ordinating closures or rationalisations.

4.3 Do not, with any competitor, allocate customers, markets or territories or boycott customers, suppliers or other competitors

Any agreement or understanding with a competitor to **allocate customers, markets, territories or product lines** may breach competition law. The following are all strictly prohibited:

- Agreeing not to compete with a competitor in certain territories (with certain limited exceptions such as when cooperating with a competitor in a joint venture).
- Dividing the sale of different products between Coats and its competitor(s).
- Warning a competitor or new market entrant to "*stay off Coats' patch*".
- Having discussions or making plans with a competitor to keep a new entrant out of the market.

Arrangements between two or more competitors to refuse to do business with a competitor, customer or supplier could also breach competition law. Coats must make decisions about who to deal with and on what terms independently, based solely on Coats' best interests.

4.4 Do not discuss or agree, with any competitor, on strategy relating to a bid or contract offer

Particular issues can arise in the context of competitive procurement processes such as tenders. In these situations, it is especially important to act independently and refrain from contact with a competing bidder. The following are strictly forbidden:

- Agreeing with competitors as to who will/will not bid for a particular contract.
- Discussing prices with competitors prior to tendering or during tenders.
- Agreeing with competitors the prices or terms and conditions to submit in a bid.

4.5 Do not discuss or exchange confidential or commercially sensitive information with any competitor

When competitors exchange information, this can reduce uncertainty in the market and weaken competition. For this reason, **competition authorities are highly suspicious of all forms of information exchange between competitors** and will be quick to assume that they are the basis for a cartel.

Serious concerns will be raised whenever two or more competitors exchange information directly, such as through emails or calls between sales managers. However, the scope of illegal information exchanges is far wider. Competition authorities also investigate **indirect exchanges through third parties** (such as when information is exchanged through a mutual customer). They may even scrutinise **public price announcements** when these are made in advance of implementation and provide a basis for competitors to align their strategy.

Think twice before ever assuming that a topic is 'safe' to discuss with a competitor. If it relates to any aspect of the following, it is likely to be illegal:

- Company strategy.

- Pricing.
- Costs.
- Production.
- Sales and output.

As a rule of thumb, never exchange any information that could **influence a competitor's commercial strategy** or which would be **considered confidential in the ordinary course of business**. If a competitor initiates a discussion involving such information, ask them to stop, tell them you will not participate, leave the room/end the discussion and follow the disclosure process set out in the Whistleblowing Policy (see Section 3.4 above).

Competitors may exchange **genuinely public information** about their companies (for example, data already published in a press release or annual report). You may also discuss non-specific topics like broad economic trends or the state of the market in general. However, always be aware that such discussions must not stray into any prohibited areas, and ask yourself why this information is being requested and provided.

Dealing with competitors: your questions answered

Q1 Can I discuss with competitors making simultaneous price changes?

A1 No. This type of activity would constitute involvement in a price-fixing cartel and would be a serious breach of both company policy and competition law.

Q2 Can I discuss with competitors the prices related to particular customer accounts?

A2 No. This type of activity would also be considered illegal.

Q3 As a distributor for two competing manufacturers, can I discuss relative price levels with both of them?

A3 You may discuss pricing and general market conditions with a manufacturer whose products you distribute but you must limit information exchange to what is essential in the context of the negotiation. You must not provide pricing or other sensitive information to competing manufacturers. Do not act as a conduit or facilitator for the exchange of commercially sensitive information between other companies.

Q4 I have lots of friends in the industry, some of whom work for competitors. Does this mean I cannot discuss my work with them?

A4 Any such contact must remain purely social. In particular, do not 'take advantage' of your contact to discuss commercially sensitive information such as any element of pricing, supply terms and purchase terms, costs, profit margins, capacity, or any strategic commercial issues.

Q5 Can I visit a competitor's production facilities to discuss raw material costs, product innovation or technical development?

A5 Discussing raw material costs would in most cases breach competition law and discussing product innovation and technical development are also not allowed. There are limited circumstances in which it would be acceptable to exchange such information, for example in the context of planning an R&D joint venture. If this is what you have in mind, speak to the Legal Team before starting any such discussions.

Q6 Can I refuse to supply a customer when I have the capacity to do so but I know they are a long standing customer of one of my competitors?

A6 This type of 'respect' for a competitor's position could be seen as involvement in a cartel and as evidence of market sharing. Always decide who to supply and on what terms independently, in Coats' best interest.

Q7 Can I discuss the market in general with competitors and whether business is slow or busy?

A7 Yes, you may discuss general market conditions. However, you must not provide pricing, volume or other sensitive information to competitors.

5. Dealing with trade associations

SUMMARY

- **Participating in trade associations is part of doing business and is acceptable company practice.**
- **Trade associations raise competition concerns because they can serve as platforms for illegal agreements or information exchange.**
- **Simply being present at a meeting where illegal discussions take place makes you and Coats liable for breaching competition law.**
- **If discussions stray into unlawful areas, always object and leave the meeting if necessary.**

Coats' participation in trade associations is legitimate and permitted. However, all employees must ensure that their conduct at trade associations, and the conduct of the other members, never oversteps the permitted boundaries.

Matters which come under the prohibited categories in Section 4 above ('Dealing with Competitors') must **NOT** be discussed at trade association meetings. In addition, the safeguards set out below should be implemented to ensure that Coats' participation in a trade association does not give rise to competition risks.

Attending a meeting at which confidential information is exchanged or commercially sensitive topics are discussed will cause risk for Coats **even if our attendee is 'passive' and does not participate in the discussion.** Simply by being present, Coats will be treated as a party to the infringement. Always distance yourself from any discussions that could cause suspicion at once, and report such events to the Legal Team – see Section 5.2 below.

The guidelines below extend to discussions during breaks and social events organised around trade association meetings. **Be particularly vigilant at the fringes of meetings and avoid 'off the record' discussions**.

5.1 Guidelines for attending trade association meetings

Oversight/Supervision

- Ask for an agenda to be circulated in advance of the meeting. Review the topics and speak to your line manager if you have any concerns that the meeting may involve confidential or commercially sensitive information.
- If any topic does involve potentially sensitive information, request its removal from the agenda in advance and ensure that all members are informed of the change.
- The Chairperson should remind attendees about compliance requirements at the start of the meeting.
- If possible, a lawyer (either independent or the external counsel of the association or one of the companies attending) should be present at each meeting to monitor for compliance issues.
- Once the meeting is underway, discussions should be limited to the agreed agenda topics.

Record-keeping

- Take accurate minutes of meetings. If the trade association circulates its own minutes afterwards, review them and ensure that they accurately reflect what was discussed.
- The trade association should provide a document defining the purpose, structure and authority of the group.

Permitted activities

- You can discuss general topics of interest to the industry such as a joint approach in lobbying/submissions to authorities, industry quality standards, or general economic trends.
- If necessary, you may exchange historic data which could no longer be considered commercially sensitive. This will vary from market to market, but information will generally not be considered "historic" unless it is at least one year old – sometimes more. Consider whether it is capable of influencing future behaviour or being relevant today; if so, it should not be exchanged.
- Even historic data should not be exchanged directly with a competitor. It should only be provided to the trade association or a third party that aggregates the results from all members.

5.2 Follow these steps if any discussions or activities appear to breach competition law

- **Object** immediately.
- Ask for the discussion/activities to stop.
- Disassociate yourself from the discussion/activities.
- If the discussion or activities continue, **leave** the meeting.
- Ensure that both your objection and your departure are **recorded** in the meeting's minutes.

Trade associations: your questions answered

Q1 Does company policy allow me to attend trade association meetings?

A1 Yes. Coats' policy permits participation in trade associations and attending meetings. It is vital that the guidelines in this Policy are followed, however, to prevent the risk of harm to the company.

Q2 My competitors exchanged price information at the last meeting but I stayed silent. Is this a problem?

A2 Yes. Even if you did not disclose any information about Coats, simply being present at an illegal information exchange (and being told your competitors' plans) exposes the company to an investigation and potential fines. Report this situation to your line manager and the Legal Team immediately.

Q3 There is a dinner planned after the next trade association meeting. Can I attend?

A3 Yes. Attending social functions outside a formal meeting is to be expected, but remember that the same rules apply as inside a meeting. Don't let discussions stray into areas that would not be acceptable on the agenda of the meeting itself and, if they do, raise an objection.

6. Dealing with suppliers, distributors and partners

SUMMARY

- **A supplier cannot fix the price at which distributors or retailers resell its products.**
- **Exclusive agreements with a supplier, purchaser or distributor are generally permitted but require caution if either party has a high market share (e.g., in excess of 30%). They are also subject to specific rules in the EU.**
- **Exclusivity periods in vertical arrangements should, in general, not exceed five years.**

Coats deals on a daily basis with suppliers, distributors, customers and other partners in the market. Although these 'vertical' relationships are less likely to harm competition than 'horizontal' arrangements between competitors, they do give rise to specific issues of their own. Also, because they are at the heart of how Coats does business – and the company enters into hundreds of such agreements every year – it is essential to be aware of the key competition concerns in this area.

Certain rules on vertical agreements vary between regions. In particular, US law applies certain conditions on discriminating between customers and the EU imposes rules on territorial restrictions that do not apply elsewhere. We have identified these specific issues separately below. All other rules and guidelines in this section must be followed wherever in the world Coats operates.

6.1 It is illegal to fix a distributor or retailer's resale price

A supplier is not allowed to impose **a fixed or minimum resale price** on a buyer such as a distributor or retailer. Resale price maintenance, as this is called, is highly restrictive of competition and is prohibited.

When acting as a supplier, Coats can set a maximum resale price which the distributor or retailer may not exceed. It may also **recommend a resale price**. However, it is forbidden to use incentives (such as rebates) or threats so that the recommended resale price effectively becomes a fixed resale price in practice. Remember – the reseller must always have the flexibility to price **lower** than the recommended price if it chooses.

The same rules apply if Coats is acting as the distributor for another manufacturer. Never agree to a fixed resale price, and report to your line manager any attempts to force Coats to observe a recommended price.

6.2 Exclusive agreements

Agreements with partners will often include exclusivity provisions (e.g., the manufacturer agrees to supply only one distributor, or the distributor agrees not to sell competing products). Making a vertical agreement exclusive entails some restriction of competition, but it can also have positive effects. For instance, a distributor that is granted exclusivity might invest more in its distribution system, making improvements that will benefit consumers.

An exclusive vertical agreement will not be considered problematic unless it removes competition for or with a product that represents a large part of the market. This will typically only be a risk if either the supplier or the distributor have a high market share (e.g., in excess of 30%).

For the purposes of this Policy, exclusivity and non-compete provisions in vertical agreements will be considered acceptable if:

- Both parties to the agreement individually have market shares below 30%;
- The non-compete period does not exceed five years; and
- The agreement does not impose any form of resale price maintenance.

Note that an exclusive agreement is not automatically illegal if these market share benchmarks are exceeded or if a non-compete is agreed for a longer duration. However, it will be necessary to review the agreement and Coats' position in the market in more detail to ensure that there will be no harm to competition. To avoid compliance risks, any agreement that grants or imposes exclusivity for products or regions where we are at risk of being dominant should be reviewed by the Legal Team before signing. For guidance on dominance refer to Section 7.1.

6.3 Licensing trademarks to and from partners

Manufacturers may grant distributors a licence to use their trademarks in connection with the sale of their products. In some cases, the licence may be exclusive so that only one distributor is permitted to use the trademark in a given territory. Exclusive trademark licences are treated similarly to other vertical agreements under competition law, i.e. they are generally permitted but may give rise to concerns if either party has a high market share (e.g., individually in excess of 30%). The Trade Mark Management Policy should be reviewed before entering into any licensing agreement in respect of trademarks.

6.4 Dealing with competitors as partners

There may be times when Coats acts as a distributor for a supplier with whom it also competes, or Coats appoints a competitor as its distributor. In these situations, extra care must be taken to ensure that discussions do not enter into any areas that relate to competition between Coats and the other party. In particular:

- Do not discuss or agree any prices, discounts, or terms unless they relate to the distribution agreement in question.
- Do not exchange any confidential or commercially sensitive information unless it is necessary for the purpose of the agreement.

If Coats is involved in M&A activity with a competitor, for instance preparing to buy or sell a business unit, this will necessitate exchanging certain commercial information. You must only exchange information that is essential to prepare for and implement the deal (including, in the case of a disposal, a post-completion transitional period), and safeguards should be used to ensure that information is only provided to the limited group of people that require it for that purpose.

6.5 US rules on discriminating between customers

Under US law, suppliers are prohibited from charging different prices to customers that compete with each other and purchase equivalent volumes of the same product at the same grade or quality at around the same time, if (i) this could harm competition, and (ii) there is no objective justification. In practice, where Coats makes contemporaneous sales of the same quantity of the same goods to customers in the US who compete with each other, the price to each customer should be the same unless there are good reasons for charging differently. Several reasons have been accepted in past cases, for instance, the different costs of supplying each customer or differences in each customer's creditworthiness. In addition, a supplier is allowed to alter its prices in order to meet competition on a particular account. If you are unsure whether there are good reasons for charging differently consult the Legal Team.

This rule does not apply to export sales by US companies but it does apply when a non-US company sells into the US, provided that all of the conditions for establishing discrimination (as above) are met. Note that in other parts of the world, including the EU, price discrimination is only prohibited if the supplier is a dominant company (see Section 7 below).

6.6 EU rules on territorial restrictions

The EU imposes particular rules on vertical agreements that are intended to prevent barriers to trade within the internal EU market. These rules are only applicable where Coats is supplying or distributing products within the EU as a whole or in an EU Member State. Coats does not need to apply these rules when appointing distributors in non-EU territories.

EU law distinguishes between “active selling” and “passive selling”. Active selling means approaching customers in order to advertise or offer a sale. Passive selling means making a sale in response to unsolicited orders or requests. Online sales are treated as passive sales in almost all cases.

If Coats allocates a territory or a group of customers in the EU to an exclusive distributor, or reserves a territory or group of customers to itself, it **can prevent other distributors from actively selling its products** into that territory or to those customers.

However, **Coats cannot prevent other distributors from making passive sales** into a territory or to a group of customers that have been exclusively allocated to one distributor or reserved to itself. In other words, even if Coats has appointed an exclusive distributor in an EU country, distributors in other countries must be allowed to respond to inquiries from customers in that country.

Finally, if Coats has appointed a **non-exclusive** distributor in an EU territory or for a group of customers, it cannot prevent other distributors from making **either active or passive sales** into that territory or to those customers.

Dealing with partners: your questions answered

Q1 Can I fix the price at which my distributors (or other customers) sell Coats' products to third parties?

A1 No, you may indicate a maximum resale price and you can recommend resale prices providing that you take no steps to try and enforce them as fixed but you cannot fix and enforce a minimum sale price.

Q2 Can I agree an exclusive supply contract with a customer?

A2 For a short period (up to five years) exclusivity will generally be allowed, but may be of concern if Coats has a high market share in relation to the product supplied.

Q3 A contract with an exclusive distributor in an EU country says: *"Distributor (A) agrees not to sell the Products outside the allocated Territory."* Is that allowed? For the avoidance of doubt, the allocated Territory is within the EU.

A3 No. This clause prevents Distributor (A) from making any sales at all outside its territory, even in response to unsolicited requests. Since this prevents passive sales, it would be prohibited under EU competition law. An acceptable alternative would be: *"Distributor A agrees not to market or actively sell the Products outside the allocated Territory."*

As noted above in Section 6.6, this rule does not apply outside the EU. A distributor that is allocated a non-EU territory can be prevented from selling either actively or passively outside that territory.

7. Behaviour in dominant markets

SUMMARY

- **Companies are subject to special responsibilities in markets where they hold a dominant position.**
- **If a company is dominant, it must be particularly cautious when granting discounts and rebates. These should reward increased sales and not be aimed at achieving exclusivity.**
- **Dominant companies must also avoid very low pricing aimed at squeezing out a competitor and excessively high pricing that exploits customers.**
- **Identifying markets where Coats might be dominant can be difficult. Seek advice from the Legal Team if you have any doubts.**

In some markets, Coats might be considered to be in a dominant position. For the purpose of competition law, this means that it is in a position to behave as it wishes without worrying about competitors. For example, a dominant company can raise prices above competitive levels and its position in the market will not suffer.

Competition law places dominant companies under a **special responsibility** not to abuse their market power. It is therefore illegal for dominant companies to engage in some types of conduct that are perfectly legal for non-dominant

companies. Indeed, the same company may be prevented from carrying out certain behaviour in one market, where it is dominant, that it can pursue freely in others, where it is not. The most common problematic area for dominant companies involves **rebates and discounts**.

7.1 Identifying dominance

Since this area of the law only applies to dominant companies, it is important to establish whether Coats could be considered dominant in respect of any products that it supplies. This depends, firstly, on defining the relevant product and geographic markets in which Coats competes.

The Legal Team can assist you in determining the scope of the product and geographic markets in which you operate. Markets may be defined for competition law purposes differently from Coats' internal practice. For example, Coats may have a dedicated sales team for a particular country (e.g., Vietnam) and monitor its position relative to competitors in the 'Vietnam market'. However, it is possible that a competition authority would regard the relevant market as wider than national in scope. Coats' position in a regional, SE Asia-wide market may be quite different from its position at a national level. Similarly, a competition authority may perceive either a geographic or product market to be narrower than Coats' internal view, for example, identifying a specific market for "tyre cord" as a subset of "automotive thread". Coats' position in the narrower market could be either stronger or weaker than its position in the broader market.

Once the relevant market has been defined, the second step is to establish whether Coats is dominant in it or could be suspected of dominance. Dominance is determined by reference to several factors, including in the particular market shares. Although most competition authorities do not apply fixed thresholds for defining dominance, there are various rules of thumb based on the company's market share that can be used to assess the likelihood that a company may be dominant:

- A persistent market share in excess of 50%, where all rivals have much smaller shares, will create a presumption of dominance (although this may be disproven on the facts).
- If a company has a market share between 30% and 50%, it should not be presumed to be dominant but it could be shown to be dominant based on the context of the market in which it operates. A key factor in this regard will be the strength of its competitors. If the market leader has a relatively high market share but is not significantly ahead of its competitors – e.g., the market leader has a share of 35% but the next largest players have 20-30% each – it is unlikely to be dominant. By contrast, if all competitors are consistently small and fragmented, a 30 - 50% market share may indicate dominance.
- A company is very unlikely to be considered dominant if its share is below 30%, unless all of its competitors are considerably smaller and in practice it does not face effective competitive pressure.

Although they are important, market shares are not the only measure that competition authorities use to determine whether a company is dominant. In addition, other factors relevant to determining market power include barriers to other competitors entering or exiting the market and the presence (or absence) of buyer power. As such, it should

never be assumed on the basis of market shares alone that a business is or is not dominant and you should consult the Legal Team for guidance.

7.2 Granting rebates and discounts when dominant

Offering customers rebates and discounts is generally seen as a sign of healthy competition that leads to lower prices. For competition law purposes, the terms 'rebate' and 'discount' are used largely interchangeably. The guidance in this Policy applies to both rebates and discounts. Dominant companies are allowed to compete fairly on price with their rivals, and are not prohibited from granting rebates. However, they are subject to certain conditions to ensure that the rebates they grant are not liable to harm competition.

Any rebate that is directly linked to a customer's loyalty is prohibited. A rebate of this nature could be structured either to encourage purchases from the dominant supplier or to discourage purchases from other suppliers. Either would be prohibited, for example:-

- A rebate that is conditional upon the customer purchasing more than 80% of their requirements from the dominant supplier.
- A rebate that is conditional upon the customer agreeing not to make any purchases from any supplier other than the dominant company.

By contrast, a dominant company may grant rebates that are linked to a genuine reduction in its production or distribution costs. If the supplier's costs go down when a customer places a larger order, the supplier is entitled to pass this saving on to the customer in the form of a rebate or discount. A prompt payment discount is also acceptable, for similar reasons, as this may reduce financing costs.

- **Standardised** rebates, in which the same thresholds and discount rates apply to all customers, are seen as less harmful than **individualised** rebates that target a particular level of purchases for each customer.
- Rebates should be structured in a **clear and transparent** way so that customers understand what they must do to achieve the saving.

If you are granting a rebate and we are at risk of being dominant in that market, please refer to Coats World to see any guidelines which the Legal Team have produced on rebates and speak with a member of the Legal Team.

Note that the above points are only general guidance based on previous cases, and that each rebate must be assessed on its own merits. In addition, it is important to remember that Coats is only subject to these special provisions on rebates **if it is dominant** in the market concerned. The Legal Team can provide further assistance and should be consulted before new rebates or discounts are structured.

7.3 Selling practices in dominant markets

As well as being cautious about rebates and discounts, **a dominant company must not do any of the following:**

- Engage in predatory pricing or margin squeeze.
- Charge excessive or discriminatory prices.
- Tie or bundle the sale of one product to the sale of another product.
- Refuse to supply a customer or potential customer, without valid reasons.

1. Predatory pricing/Margin squeeze

Predatory pricing refers to a dominant supplier selling its products at below cost so that competitors are unable to compete. If a dominant company's prices are sufficiently below its costs and are unsustainable in the long run, the competition authorities can assume that the pricing strategy is aimed at eliminating rivals. If Coats are dominant and propose to price their products below cost and in a way that is unsustainable in the long run, it is a red flag issue that should be discussed with the Legal Team,

Margin squeeze is a form of abuse which can occur when a dominant company operates at two levels of the supply chain. A company in this position can set its wholesale prices to competitors and its retail prices to customers in such a way that the competitors cannot compete with it at the retail level. This could be because its wholesale price is too high, its retail price is too low, or both. It is considered an abuse if the margin between the wholesale and retail prices is (i) negative or (ii) does not cover the dominant supplier's costs at retail level. It is not necessary to prove that the dominant supplier intended to squeeze out competitors.

2. Excessive/discriminatory pricing

A dominant company may not charge customers prices that are unfairly high and bear no reasonable relationship to the value of the product supplied. Cases based on excessive pricing are quite rare, since it is difficult for competition authorities to establish what the 'fair' price should be, but the practice remains illegal.

In addition, dominant companies should not charge different prices to customers in a similar position (i.e., they purchase similar volumes of the same product) unless it can be objectively justified. Good reasons for differentiating between customers could relate to costs of supply or other objective factors such as their creditworthiness. As a rule, dominant companies should price fairly and offer prices which relate to the cost of supplying each customer, on a non-discriminatory basis.

Note that, in the US, discriminatory pricing is prohibited for all suppliers and not just dominant companies. Please refer to Section 6 above for detailed guidance.

3. Tying/Bundling

Tying occurs when a company forces purchasers of one product, in relation to which it is dominant, to also buy another product An example would be a dominant supplier of thread refusing to sell such thread to a customer unless they also buy its zips. This will be an abuse of dominance if the two goods sold are separate products (i.e. in the absence of the tie, a substantial number of customers would buy them separately), if customers have no option but to buy them together, and if this has the effect of eliminating competition.

If two products are offered separately but on such terms that it would only make sense to buy them together, this is considered equivalent to tying and is referred to as “bundling”. An example of this would be if the dominant supplier of thread sells thread and zips separately but at a higher aggregate price than if they are bought together, and the difference between the aggregate price and the bundled price cannot be justified, e.g. by cost-savings.

4. Refusal to supply

It can be considered abusive for a dominant company to refuse to supply (or reduce supplies to) an existing customer without a reasonable justification. Valid reasons include concerns about the customer’s creditworthiness or a shortage of the relevant product. Cutting off a customer in order to discipline it for having purchased from a competitor would not be acceptable.

Note that it is illegal for both dominant and non-dominant companies to refuse to supply a customer on the basis of an agreement with a competitor.

Behaviour in dominant markets: your questions answered

Q1 How do I know if Coats is dominant in the area that I work in?

A1 Identifying dominance involves looking carefully at the structure of the market, including market shares and barriers to entry. If you think Coats supplies more than a third of the total market for a product in a particular country or region, exercise caution and follow the guidelines in this chapter.

Q2 Coats supplies more than half of the customers in my market and I believe we are dominant. Can I still grant customers rebates?

A2 Yes. Granting rebates is always acceptable, but they should be based on rewarding a customer for making a certain volume of purchases that reduces Coats' costs. If dominant, you must not offer customers discounts for giving Coats 80% of their business (for example), or for not buying from competitors. If you think Coats may be dominant in your market, speak to the Legal Team **before** implementing any new rebates.

Q3 Can I refuse to supply a customer?

A3 Unless Coats is legally bound to supply a customer under existing agreements, you can refuse to supply them. However, note the following:

- If Coats is dominant, it should not refuse to supply a customer with whom it has a previous relationship unless there is a valid reason for doing so, such as insolvency or lack of credit.
- Any decision to refuse to supply a customer must be a unilateral decision by Coats, and not the result of an agreement or understanding with another customer or a competitor and it should not be done to discipline a customer for purchasing from a competitor.

Q4 Can I force a customer that buys one product to also buy another product from Coats by not selling them separately?

A4 If Coats is dominant in relation to the first product and the other product is clearly distinct (i.e. a substantial number of customers would not normally buy them together), this could be illegal tying. Do not force the customer to buy products it does not want.

8. Document management

Competition authorities have **extensive powers to seize and review documents** if they suspect an infringement of competition law. They also typically require internal documents to be submitted when a transaction such as a merger or joint venture is notified for their review.

All documents created by Coats and its employees, except for legally privileged documents such as certain correspondence with external lawyers, could be subject to scrutiny. These include, for instance:

- Emails.
- Any form of internal communication, such as memos, presentations and minutes.
- Private notes.

- Diary and calendar entries.
- Unwritten electronic 'documents' such as dictated digital notes.
- Voicemails.

The broad scope of review means that it is important to **be cautious when drafting any documents** for either internal or external circulation, and even personal notes. You must also be conscious of your language in all business communications both in writing and orally (e.g. during a telephone conversation or meeting).

Documents are **subject to interpretation by the competition authorities**. It can be hard to disprove an unhelpful statement and careless language can be very damaging. Remember that poor choice of words can make a perfectly legal activity look suspicious.

8.1 Key principles for safer documents

- DO NOT use phrases which could be seen as **suggesting illegal activities or intent**, such as "*please destroy after reading*".
- DO NOT use phrases **suggesting that Coats does not face effective competition**, such as "*we will dominate the market*", "*we have virtually eliminated competition*", or emotive words like *destroy*, *kill*, *squeeze*, *crush*, *damage*, or *control*.
- DO NOT speculate about **whether an activity is illegal**, for example commenting that "*these arrangements may well breach competition law so keep it confidential*".
- DO NOT use terms denoting **absence of competition** such as "*absolute entry barrier*", "*ability to set prices*", or "*weak competition*".
- DO NOT use terms denoting **collusion between competitors** like "*coordinate prices*", "*reserve/share/partition the market*", "*Coats' quota of the market*", or "*Coats' territory*".
- **ALWAYS** think about how any documents will be perceived by a competition authority.

9. Competition authorities' powers

Although the aim of this Policy is to prevent a situation in which Coats could be suspected of breaching competition law, it will always be possible that the company could become involved in an investigation. For this reason, it is important to understand what powers competition authorities have in such circumstances.

It is Coats' policy to cooperate with any investigation or lawful search carried out by a competition authority. Failure to do so may incur serious penalties and is a disciplinary matter.

9.1 Requests for information

Often, a competition authority investigating a concern in the market will request information by way of a letter or questionnaire. In some cases, it will be mandatory to respond and penalties can be imposed for a late, misleading or

incomplete response. More importantly, ignoring such a request could prevent Coats from taking action to defend its position.

If you receive any communication from a competition authority, or any government agency, **always contact the Legal Team immediately**. Do not respond without seeking advice, do not disclose any documents and do not discuss the communication with anyone outside the company. In particular, do not ask competitors if they have received something similar.

Requests for information can be used in the context of a "sector inquiry". This is a form of investigation in which competition authorities look in depth at a particular industry or market to determine whether competition is functioning effectively (rather than investigating a specific suspected infringement or a specific company). Sending information requests typically forms an important part of the data-gathering process in a sector inquiry. Most sector inquiries end with the competition authority proposing enforcement action and/or concluding that one or more companies in the sector has infringed the competition rules.

9.2 Dawn raids

Competition authorities also have the power to carry out unannounced inspections (sometimes called '**dawn raids**') at the premises of companies that they suspect may have broken the law. Dawn raids are generally used to investigate secret infringements such as cartels, where there is a fear that a company may hide or even destroy evidence if they receive a written request for information.

As well as inspecting any business premises of the company, the authorities may also raid employees' non-business premises. This includes private homes and private or company cars.

Coats has implemented specific guidelines on responding to dawn raids, which are provided separately and must be referred to in the event of an inspection. Please note the following **key points**:

- Immediately contact the Legal Team or your local legal contact.
- Stay calm and courteous towards the inspection team.
- **Do not destroy or delete any documents** (paper or electronic) on any subject, even personal material, until further notice.
- Do not answer any questions until a member of the Legal Team or an external lawyer is present.
- If the inspection team seals rooms or filing cabinets/drawers, **do not break the seal** under any circumstances.
- Do not announce the raid externally to anyone, even if they contact you.

Dawn raids: your questions answered

Q1	I have received a letter from a competition authority asking for information about Coats. Should I reply?
A1	Contact the Legal Team and forward them a copy of the letter. Do not respond to the letter without seeking advice from the Legal Team, and do not tell anyone outside Coats that you received the letter.
Q2	Inspectors from a competition authority have arrived unannounced at our premises and are asking to see our files. What can I do?
A2	Contact the Legal Team immediately and consult Coats' Guidelines for Dawn Raids. Ask the inspectors to wait for you to consult the Legal Team or external lawyers before they begin their inspection. If they refuse, take a note of this and consult the Guidelines for Dawn Raids for next steps.
Q3	Where can I find more information on dealing with unannounced inspections?
A3	Please refer to Coats' Guidelines for Dawn Raids, which are available on Coats World and at all local premises.

10. Brexit

In light of Brexit, it is understood that the UK will continue to apply competition law principles as they are currently applied in the UK. The outcome of Brexit should not materially change the way competition law is applied in the UK.

11. Concluding remarks

Thank you for taking the time to read this Policy carefully.

Coats relies upon its employees to understand its compliance policies and to put the content into practice. If, after reading this Policy, you have any questions about a particular business practice or a discussion, event or meeting that you have had in the past, or are planning for the future, please do not hesitate to contact the Legal Team.