

SUPPLY CHAIN DUE DILIGENCE

Policy Statement, Strategy & Procedures

in accordance with the German Supply Chain Act



JTI STRIVES
TOWARDS
ACHIEVING
THE HIGHEST
STANDARDS OF
INTEGRITY IN ALL
ASPECTS OF ITS
BUSINESS AND
SUPPLYCHAIN.

1. Management Foreword

As a leading tobacco corporation, Japan Tobacco International Germany GmbH (hereinafter referred to as JTI) is aware of its responsibility regarding global supply chains. We will only be commercially successful in the long term if the impacts of both our business activities and those of our suppliers are in harmony with people and the environment. For this reason, our objective is to strengthen human and environmental rights and prevent or counteract all breaches/violations of these. We are focused on minimising and, if necessary, remedying them. This commitment applies to both our own business activities and those throughout our global supply chains. Values such as solidarity, community and sustainability are firmly anchored within our corporate culture. Our core business comprises the manufacture and distribution of classical tobacco products and next-generation products such as heat-not-burn products and electronic cigarettes. Many people use tobacco and next-generation products, or are exposed to them, on a daily basis. For this reason, it is important to us that we have a clear stance with regard to a sustainable society.

2. Introduction

2.1. Object, objective and purpose

This policy outlines the handling of human rights-related and environmental risks (hereinafter referred to as 'risks') within our own business operations and throughout the supply chain in accordance with the German Supply Chain Act and the company's due diligence obligations arising from this. The objective is to identify, counteract, preferably prevent, end or minimise these risks. With this, we are committed to the implementation of an appropriate and effective risk management system in accordance with § 4 of the German Supply Chain Act in order to comply with the diligence obligations (§ 3 Paragraph 1 of the German Supply Chain Act). The risk management system will be anchored within all important business processes by means of appropriate measures.

2.2. Scope

This policy is binding for JTI's German operations, both at the Trier site and the branch office in Cologne.

2.3. Definitions and abbreviations

Human rights-related and environmental risks: The risks are defined in Section 4.2.

Direct suppliers: A direct supplier is a partner associated with a contract for the supply of goods or the provision of services, whose deliveries are significant and necessary for the manufacture of the company's product or for providing and/or utilising the relevant service.

Indirect supplier: An indirect supplier is any company that is not a direct supplier and whose deliveries are significant and necessary for the manufacture of the company's product or for providing and/or utilising the relevant service. These are, above all, the group of the suppliers' suppliers.

Supply chain: The supply chain relates to all the products and services of a company. It comprises all domestic and foreign steps required for the manufacture of the products and for providing the services, starting with the acquisition of the raw materials all the way through to the delivery to the end customer and encompasses a company's activities within its own business operations, the activities of a direct supplier and the activities of an indirect supplier.

2.4. Regulatory scope

The requirements of this policy outline the minimum standards relating to processes and process controls within JTI.

With regard to dealing with suppliers and supply chains, there is a particular focus on the human rights and environmental obligations outlined in Section 4.2. Further regulations, particularly those pursuant to contract and purchasing terms and conditions and JTI purchasing processes, remain unaffected.

This policy statement represents our supply chain strategy and simultaneously acts as a binding guideline for all our employees, suppliers and business partners to act in the right manner. We are committed to having a positive impact on society and on the environment and are contributing towards establishing a responsible supply chain that complies with the very highest standards.

3. JTI – Who we are

We are a subsidiary of Japan Tobacco B.A., a leading international company headquartered in Amsterdam, the Netherlands. The global JTI Group was founded 23 years ago when Japan Tobacco acquired the activities of R.J. Reynolds outside America. Since then, 48,000 committed employees have been driving our constant growth worldwide.

Our Group includes some of the world's best-known brands – including Winston, the second-biggest cigarette brand in the world. Further important brands are American Spirit and Camel. Our portfolio unites the heritage of traditional tobacco and the latest technical and scientific innovations in the case of reduced-risk products.

With around 2,200 employees, we are the largest employer within the tobacco sector in Germany.

At our production site in Trier and the neighbouring research & development centre, more than 1,800 members of staff are setting quality standards for our plants and licensed manufacturers worldwide.

The company's marketing, sales (including telephone sales), logistics, finance and communication departments are managed from JTI's offices at Cologne's MediaPark. Around 200 field force employees look after our trading partners throughout Germany. Our global view makes us dynamic and creative, while our Asian heritage stands for precision and long-term thinking.

We are global, values-oriented, efficient and quality-conscious. We make decisions that take the requirements of our consumers, our employees, our supply chain and society into consideration in order to comply with our responsibility with regard to these. Here, the main focus is on respecting human rights, on improving social and ecological impacts and on good management.

4. The German Supply Chain Act

4.1. Responsibility in accordance with the German Supply Chain Act

The German Supply Chain Act obligates us as a company registered in Germany to comply with human rights by implementing and complying with defined due diligence obligations. We are aware that this is a continual process and we are committed to continually improving our efforts in order to ensure that our supply chain is, among other things, free of human rights breaches, labour law violations, environmental harm and corruption.

The core elements of the due diligence obligations include the establishment of a risk management system in order to identify, preferably avoid or at least minimise the risk of breaches/violations of human rights and harm to the environment. The German Supply Chain Act outlines which preventative and remedial measures are possible and feasible and it also obligates us to utilise complaints procedures and regular reporting.

The due diligence obligations relate to our own business operations, to the activities of direct contractual partners and potentially also to the activities of further (indirect) suppliers.

4.2. Rights protected in accordance with the German Supply Chain Act

In detail, the German Supply Chain Act refers to a protection catalogue of eleven internationally-acknowledged human rights and environmental agreements that we are also obligated to protect. These are:

- The United Nations Universal Declaration of Human Rights principles of the United Nations Global Compact (UNGC);
- The guidelines of the Organisation for Economic Co-operation and Development (OECD) for multinational companies;
- The United Nations International Covenant on Political and Civil Rights Treaty;
- The United Nations International Covenant on Economic, Social and Cultural Rights;
- The core International Labour Organisation (ILO) standards on labour and social standards;
- The Charter of Fundamental Rights of the European Union;
- The Diversity Charter;
- The European Convention for the Protection of Human Rights and Fundamental Freedoms;
- The Minamata Convention on Mercury;
- The Stockholm Convention on Persistent Organic Pollutants (POPs Convention);
- The Basel Convention on the Control of Transboundary Movements of Hazardous Wastes.

The legally protected rights in these form the basis for compliance regulations and/or bans relating to commercial activities in order to prevent breaches/violations of protected rights. The concrete risks/rights are as follows:

Nr. Menschenrechtliche Pflicht

- 1 Prohibition on child labour
- 2 Prohibition on worst forms of child labour for children under the age of 18
- 3 Prohibition on forced labour
- 4 Prohibition on all forms of slavery
- 5 Prohibition on the dereliction of occupational protection obligations
- 6 Prohibition on the dereliction of the right to organise
- 7 Prohibition on unequal treatment in employment
- 8 Prohibition on the non-payment of a fair wage
- 9 Prohibition on the initiation of hazardous ground, water and air contamination, as well as noise emissions and excessive water consumption
- 10 Prohibition on illegal forced eviction and illegal confiscation of land
- 11 Prohibition on the commissioning or utilising private or public security staff in the event that a lack of instruction, training and control has the potential to breach/violate human rights

Nr. Environmental obligation

- 1 Prohibition on the manufacture of products containing mercury
- 2 Prohibition on the utilisation of mercury and mercury compounds in manufacturing processes
- 3 Prohibition on the handling of mercury waste
- 4 Prohibition on the manufacture and utilisation of chemicals in accordance with the Stockholm Convention
- 5 Prohibition on the environmentally-incompatible handling, collection, storage and disposal of waste
- 6 Prohibition on the export of hazardous waste in accordance with the Basel Convention I
- 7 Prohibition on the export of hazardous waste in accordance with the Basel Convention II
- 8 Prohibition on the import of hazardous waste

5. Our willingness to protect

5.1. Our responsibility for the environment

The environment is the responsibility of each and every one of us. At JTI, we are committed to minimising the social and ecological impacts of our value chain, products and services on the environment. We are focused on protecting the environment, minimising the consumption of resources and respecting people, communities and biological diversity. Our commitment is outlined in the JT Group's 2030 Environmental Plan and in the Sustainability Strategy for the tobacco operations.

Furthermore, we have drafted strategies which also outline our specific targets and stipulations for energy and emissions, consumption of natural resources and for our waste management.

The JTI Group Environmental Policy outlines our framework for improving our environmental performance and reducing our ecological footprint and must be adhered to in all business decisions. We are all expected to ensure that JTI implements this policy and we want to exceed the minimum standards valid in the respective countries in which we operate. For more information on this, please go to <https://www.jti.com/europe/united-kingdom/sustainability/protecting-our-environment>

5.2. Our human rights declaration

Pursuant to the United Nations guiding principles on Business and Human Rights, we are making human rights-related due diligence one of the key integrated components of our business processes in order to identify and evaluate actual and potential risks to human rights. Based on the results of this due diligence audit, we shall do our very best to avoid or at least soften the negative impacts on human rights and to ensure appropriate and effective remedies.

Our existing practices form the basis of our due diligence obligation with regard to human rights. We have currently implemented a series of programmes focused on stakeholders' concerns, including the following:

Our employee-relating policies and standards promote responsible working practices such as non-discrimination, respect for diversity and a safe working environment. We strive for open and constructive relationships with trades unions and works councils and support the freedom of association and the right to collective bargaining.

For more on protecting human rights at JTI Group, please go to <https://www.jti.com/about-us/sustainability/respecting-and-safeguarding-humanrights-across-our-operations>

5.3. Preventative measures

As part of our effort to comply with the stipulations of the German Supply Chain Act, we have initiated a series of concrete measures:

A **Human Rights Officer** monitors the following diligence obligations and reports to the Management, which shall receive a comprehensive report at least once a year. Other existing controlling and reporting structures remain unaffected.

The contractual standards make an important contribution towards this by ensuring that our suppliers act in a responsible manner and do not commit any human rights violations or cause environmental harm within the context of their production processes. Among other things, these standards also include complying with national and international legislation, protecting workers' rights, promoting environmental protection measures and respecting human dignity.

An appropriate and effectual **complaints management system** is an integral part of our due diligence processes in order to effectively prevent injuries/infringements within our company or throughout our value chain and, if necessary, to provide remedies. We have a complaints mechanism in the spirit of a whistleblower system in accordance with the German Whistleblower Protection Act (Hinweisgeberschutzgesetz), which can be used in various languages for complaints regarding the human or environmental rights of both in-house employees and external persons, associations and communities, etc. For this reason, it includes various contact options and fixed response deadlines. We also process anonymous reports, although we prefer open reporting. For further information, please go to <https://www.jti.com/europe/germany> (Point: 'Whistleblower system', scroll down a little).

We operate a comprehensive – in part also automated – **risk management** system in order to identify and evaluate potential abstract risks throughout our supply chain. As soon as we identify suspected increased risks, we address these concretely, conscientiously and as swiftly as possible. This relates both to our own business operations and to the business operations of suppliers and/or other business partners.

If we identify potential risks in our supply chain, we work closely with our suppliers in order to initiate risk minimisation measures.

These measures also include a free Web-based **training programme for suppliers on the topic of the German Supply Chain Act in general and on the various human rights and environmental rights obligations**. Please ask about these by sending an e-mail using the following e-mail address: compliance-germany@jti.com.

In the event of fundamentally increased risk, we conduct **regular audits** in order to monitor and ensure adherence to our standards. This can be carried out by means of a written exchange (i.e. questionnaires) and also by means of personal visits and meetings.

We promote transparency throughout our supply chain and ensure that our partners are also committed to this topic, whereby we actively support them.

5.4. Improvement measures (remedies)

In the event risk situations arise or there are breaches/violations among our suppliers, we shall jointly develop remedial concepts with them (i.e. deploying a task force, initiating procedures for developing a scheduled concept, references to sector initiatives, etc.) and, above all, deploy responsible individuals from the affected companies on-site.

JTI reserves the right to contractually obligate its business partners to support it when clarifying issues and to fully cooperate within an appropriate time frame. Depending on the severity of the breach/violation, JTI may initiate appropriate action – ranging from the request for immediate remedy of the breach/violation, the initiation of legal steps all the way through to terminating business relationships. Only if these joint efforts are unsuccessful following an appropriate period of time shall JTI be forced to also terminate the supplier relationship whenever this is deemed necessary.

We are aware that implementing these measures is a continual challenge and we shall continue in our efforts to ensure that we comply with our responsibility as a company and structure our supply chain in a responsible manner.

5.5. Handling breaches/violations

In the event that JTI determines that its commercial activities lead to potential or actual human rights breaches/violations or are indirectly linked to human rights breaches/violations, JTI shall endeavour to initiate appropriate remedies through the responsible bodies. Here, internal processes shall if necessary be further developed that define the procedures in the event of uncovering issues and how appropriate remedies and reparation measures within its own business operations and at indirect and direct suppliers are defined.

In the event that JTI has reasonable suspicion or concrete evidence of a potential human rights breach/violation within its own business operations, it shall immediately initiate measures aimed at ending the breach/violation or the risk. In the event a business partner breaches/violates a human right or environmental right, JTI shall define measures. These range from ending the breach/violation, preventative measures in the form of training seminars and audits all the way through to initiating appropriate remedies and must be implemented by the supplier as the prerequisite for further cooperation with JTI. JTI reserves the right to contractually obligate its business partners to support it when clarifying issues and to fully cooperate within an appropriate time frame. Depending on the severity of the breach/violation, JTI may initiate appropriate action – ranging from the request for immediate remedy of the breach/violation, the initiation of legal steps all the way through to terminating business relationships, see above.

5.6. Measures relating to indirect suppliers

We would like to get to know our suppliers, their surrounding and their business contacts (origin of raw materials, products, sector, countries) as early as when making initial contact. However, this is not a separate obligation in accordance with the German Supply Chain Act, but is an additional part of our normal purchasing process and German Supply Chain Act risk management.

Legislation only obligates us to investigate information relating to fact-supported and credible (so-called substantiated) knowledge of potential breaches/violations in the supply chain of any of our suppliers. The distinction between simple knowledge and substantiated knowledge is very substantial. For example, it is generally known that human rights breaches/violations can occur in third-world countries. However, this is too general to initiate closer risk audits among all companies in these countries. In the case of indirect suppliers, we require credible, detailed information that indicates that a concrete breach/violation appears possible. Here, we are aware that not all whistleblowers have evidence; however, with regard to the complaint itself, the facts must be sufficiently concrete to be able to commence an investigation that includes the involvement of the direct suppliers.

5.7. Monitoring the effectiveness

JTI is aware that integrating the human rights-related due diligence obligation into our own business activities and into the supply chains is a continual process. JTI accepts this challenge and shall regularly audit its strategic approaches and measures with the aim of continually improving them.

At least once a year and whenever events make it necessary, JTI shall audit the effectiveness of all due-diligence processes in order to continually identify, prevent, remedy or at least reduce to an acceptable level any detrimental human rights-related and/or environmental impacts. The effectiveness of the various measures within JTI shall be audited on the basis of defined parameters.

5.8. Documentation and reporting

We report on our progress in implementing and developing both our standard of due diligence with regard to supply chains in accordance with the German Supply Chain Act and with regard to human and environmental rights in our annual group-wide CSR(D) report and by means of a German report submitted to the Bundesamt für Wirtschaft und Ausfuhrkontrolle (BAFA/Federal Office of Economics and Export Control) focused specifically on the German Supply Chain Act.

