Legal & Security

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Mandatory

Appendix F to the Supply Chain Compliance Procedure – for sharing with external third parties

Procedure to support supply chain controls and prevent illicit trade in tobacco and nicotine products of BAT operating companies

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Related Procedures and Guidance	AIT Intelligence Compliance Procedure, Third-Party AFC Procedure, Sanctions Compliance Procedure

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Appendix F: Summary of the SCCP (for sharing with external third parties)

Overview

a) Product categories

The SCCP applies to the following BAT product categories.

	BAT product category	BAT TNPs	Combustible Tobacco Products	Modern Oral Products	Tobacco Products
A	Tobacco leaf	✓			
B	Combustible tobacco, including: • factory manufactured cigarettes (**FMC**) • fine cut tobacco, also referred to as roll-your-own (**RYO**) or make-your-own (**MYO**)	✓	✓		✓
C	Traditional oral products, including snus and snuff	✓			✓
D	Heating products (**HP**)				
D1	Tobacco heating products (**THP**), also referred to as heat-not-burn	✓			✓
D2	Herbal heating products (**HHP**)	✓			
E	Vapour products	✓			
F	Modern oral products (**Modern Oral Products**), also referred to as nicotine pouches	✓		✓	

b) Supply chain entities

The SCCP refers to the following supply chain entities and distribution channels.

1. **Contractor**: any person or entity, other than a Customer or another BAT operating company, contractually engaged by a BAT operating company to manufacture, sell, distribute and/or store any BAT tobacco and nicotine products (**BAT TNPs**, as defined above).
2. **Customer**: any person or entity, other than another BAT operating company or a DSD Customer, directly purchasing BAT TNPs from a BAT operating company.
3. **DSD**: a BAT operating company engaging in **Direct Store Distribution** (also referred to as **Direct Store Sales** or **DSS**) with vertically integrated distribution to DSD Customers.
4. **DSD Customer**: any person or entity purchasing BAT TNPs via DSD (rather than through a third party distributor) and who in turn only sells to consumers.
5. **Supply Chain Entities**: Contractors and Customers.

c) Purpose of the SCCP

BAT's Standards of Business Conduct (**SoBC**)[1] and applicable laws, policies and procedures, including the Supply Chain Compliance Procedure (**SCCP**), require BAT operating companies to ensure that they do not knowingly engage in unlawful trade of BAT TNPs and their business practices only support legitimate trade in BAT TNPs.[2]

The SCCP requires that Contractors should be informed of, and are expected to comply with, the SCCP. In addition, BAT operating companies must also make the position on illicit trade clear to Customers and DSD Customers.

This document provides an overview for Supply Chain Entities, and where required, DSD Customers on how we comply with our commitments regarding illicit trade and to help you to understand the role that you play in ensuring that the SCCP is followed. Our objective is to maintain robust supply chain controls and to take appropriate action where there are risks that BAT TNPs may be smuggled.

Should you require any further information about the SCCP, please do not hesitate to get in touch with your local representative.

d) Application

All BAT operating companies are expected to abide by the SoBC. BAT operating companies are required to maintain certain controls in respect of all markets into which BAT TNPs are supplied to prevent BAT TNPs being diverted into illicit trade channels or being used for illicit purposes.

Additional controls will be required in certain markets representing a high risk of being the source of smuggled BAT TNPs and/or in respect of certain brands which are at high risk of being smuggled and/or tax being evaded.

All Supply Chain Entities and DSD Customers are required to adopt all controls which are appropriate given market conditions and risk levels.

Failing to observe the SCCP requirements may result in BAT operating companies taking steps as identified below, including the suspension of supplies of BAT TNPs and/or termination of dealings with non-compliant Supply Chain Entities and DSD Customers.

e) Status of the SCCP

The SCCP and the assessment of high-risk markets and/or brands will be reviewed on a regular basis. The SCCP will be revised and updated in accordance with any relevant changes in the SoBC or other policies, principles and standards, legislative amendments, changes to the approach to interpretation of legislative provisions, specific requests or guidance from authorities, and other developments and trends identified in the market and general business environment.

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[1] http://www.bat.com/sobc/online

[2] This includes preventing money laundering, terrorist financing and/or the evasion of excise duties and similar taxes or facilitation of the same. For more specific guidance on these, please ask your local representative for further information on BAT's Third Party Anti-Financial Crime Procedure (**TPAFCP**).

Supply chain controls applicable to all markets

The SoBC expect BAT operating companies to maintain controls to prevent BAT TNPs being diverted into illicit trade channels.

In all end markets, these controls should include the following.

a) **'Know your customer' evaluation and approval procedures**

'Know your customer' (**KYC**) is an important procedure. It is necessary for instance, to ensure that BAT TNPs are only made using reputable Contractors and sold to reputable Customers.

All BAT operating companies are required to conduct due diligence on Customers, DSD Customers supplied directly through a BAT operating company's in-house distribution and suppliers, including Contractors. Where subsequent customers are supplied through Supply Chain Entities, the Supply Chain Entities should ensure compliance with KYC requirements in line with local legal requirements.

b) **Monitor supplies to market**

BAT operating companies are required to monitor the overall mix and volume of BAT TNPs supplied to individual markets.

c) **Procedures for investigating, suspending and terminating dealings with Supply Chain Entities suspected of involvement in illicit trade**

BAT operating companies are required to seek contractual rights to investigate, suspend and cease dealings with Supply Chain Entities, and to require Supply Chain Entities to cease dealings with parties further along the supply chain, if it is reasonably believed that they (or others in the supply chain such as subsequent customers) are involved, knowingly or recklessly, in illicit trade. These terms can also be used optionally by BAT operating companies in their agreements with e.g. DSD Customers.

Where BAT operating companies become aware of non-compliance by Supply Chain Entities, DSD Customers or others in the supply chain, (such as subsequent customers) with applicable laws and/or supply chain policies and procedures, including the SCCP, they are required to take actions[3] to address the non-compliance. Such actions may include:

1. warning against non-compliance and requesting an explanation;
2. asking for steps to be taken to remedy non-compliance;
3. reduction in supplies of BAT TNPs;
4. delisting of certain brands;
5. capping sales;
6. where necessary, suspension or termination of supplies;
7. where necessary, cessation of dealings; and/or
8. reporting non-compliance to the authorities.

[3] For the avoidance of doubt, these actions must be to address illicit trade risks and not, for example, to prevent legitimate cross-border sales within the EEA and Switzerland.

d) **Response to notified seizures**

BAT operating companies are required to respond appropriately to all notifications of seizures of alleged BAT TNPs by authorities. To the extent reasonably practicable, steps should be taken to assess the information received, investigate the seizures (including, where possible, obtaining product samples) and identify whether any actions can be taken, or additional controls introduced in order to reduce the risk of BAT TNPs being diverted into illicit trade channels. What actions/controls are appropriate will depend on the pattern of smuggling, available track and trace technology, circumstances of the seizure, etc.

BAT operating companies are required to provide information about seized products requested by regulatory authorities, and/or as required by legislation, in accordance with the deadlines set by authorities/legislation and in any event without unreasonable delay.

Your cooperation as Supply Chain Entities may be required to ensure appropriate actions are taken in response to notified seizures.

e) **Communication on illicit trade issues**

BAT operating companies are required to engage in regular communication with Supply Chain Entities, and where necessary with DSD Customers, on illicit trade issues, to reinforce the importance of avoiding facilitating illicit trade.

Additional supply chain controls applicable to high-risk markets

BAT operating companies in high-risk markets are required to adopt the additional controls below where appropriate and reasonably practicable.

a) **Extended KYC procedures**

In high-risk markets, BAT operating companies should, where possible, work with its Customers to conduct due diligence in respect of all distributors of BAT TNPs to the retail level e.g. subsequent customers of a BAT operating company's Customers and any other downstream supply chain entities.

b) **Measures to ensure supply to markets reflects legitimate demand**

Where markets are designated as a high-risk for Combustible Tobacco Products and/or Modern Oral Products, BAT operating companies must have a legitimate demand calculation for total market and all high-risk brands of Combustible Tobacco Products and/or Modern Oral Products.

Where necessary to address illicit trade risks (but not to prevent legitimate cross-border sales, for example within the EEA and Switzerland), BAT operating companies may decide to cap sales of BAT TNPs in areas that represent a high smuggling risk or cap sales of specific brands representing a high smuggling risk.

c) **Tracking and tracing supplies**

Even where there is no legal requirement to track and trace supplies, BAT operating companies in markets at high-risk of illicit trade in Tobacco Products are required to introduce track and trace technology to the first external customer. The requirement to track and trace supplies to the first

external customer may not apply in respect of certain end markets where a BAT operating company only supplies a single first external customer. Your local BAT operating company representative will contact you to discuss any track and trace requirements, and your cooperation may be required to ensure that they are appropriately implemented.

BAT operating companies should be able to identify the first external customers which supplied seized Tobacco Products in respect of all seizures originating from markets at high-risk of illicit trade.

Where necessary to identify the point at which Tobacco Products have left the legitimate supply chain, BAT operating companies may need to introduce additional measures such as:

- track and trace beyond the first external customer (**Additional Customer Tracking** or **ACT**); or
- other checks (e.g. audits of retailer sales volumes) to ensure that all Tobacco Products supplied to a market are in fact ultimately sold at retail in the intended market.

Your cooperation may be required in respect of these measures.

d) **Training for external third parties**

BAT operating companies may wish to consider training for Supply Chain Entities and, if required, select DSD Customers in high-risk markets to address the specific circumstances giving rise to illicit trade risks in that market. Your local BAT operating company representative will get in touch to discuss the delivery of training, where applicable.

e) **Communication with subsequent customers on illicit trade issues**

To the extent that it is reasonably practicable, BAT operating companies may wish to consider communicating directly with subsequent customers, where this is required to address illicit trade risks in a specific high-risk market or in respect of specific high-risk brands. Your cooperation may be required to facilitate such discussions.

f) **Flow-down of obligations to subcontractors and subsequent customers**

BAT operating companies should ensure that specific contractual obligations placed on Supply Chain Entities in relation to illicit trade, money laundering, terrorist financing and/or facilitation of tax evasion in high-risk markets are also imposed on the Supply Chain Entities' subcontractors and subsequent customers. Your cooperation as Supply Chain Entities may be required in respect of implementing these contractual obligations.