

Sector Policy:
Weapons and
Ammunition

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1. Policy's Purpose

BTG Pactual drafted this Policy with several policies to identify the social, environmental and climate risks of its many operating sectors, complying with the principles and grounds outlined in its Social, Environmental and Climate Responsibilities Policy.

To prepare each Sector Policy, a detailed analysis was carried out of the social and environmental issues involving BTG Pactual's many operating segments during all stages of its production processes, i.e., from opening new areas and obtaining raw materials, throughout the production, distribution and closing of all business activities. To this end, reports and documents were consulted from the sector's main players, such as IFC guidelines, international references for social and environmental risk analysis and technical knowledge of BTG Pactual's internal team.

The Weapons and Ammunition Policy ("Policy") establishes eight general social and environmental aspects and classifies them according to their relevance regarding risks and opportunities for this economic sector. This policy will be reviewed periodically over a period no longer than 3 (three) years.

2. Application Scope

This Policy must be applied by the ESG team, considering the relevance and proportionality principles in all segments of BTG Pactual, worldwide, that have entered or intend to enter into a relationship with legal and/or natural persons in the weapons and ammunition sector, including, but not limited to, those carrying out production, marketing, maintenance, storage and disposal activities.

3. Notes on the Sector

According to the World Bank's survey, in 2013, Brazil spent 1.4% of the Brazilian Gross Domestic Product (GDP) with military goods and services (predominantly aimed at the Armed Forces and public security forces).¹

Regarding weapons exports, Brazil was the 3rd largest exporter of small and light weapons in the world in 2017 according to a survey by the NGO Conectas.² Also according to data collected by this NGO from the Ministry of Industry, Foreign Trade and Services, from 2013 to 2017, more than 1.4 billion dollars were collected from the export of weapons and ammunition to 111 different countries.

On the other hand, data collected by Amnesty International found that more than half a million people die each year for the global trade in weapons and ammunition.³

Despite all the controversy in the sector regarding human rights, the relevance of the weapons industry and the consequent development of sensitive technologies for security (allows each country to

¹ ANDRADE, Israel de Oliveira. Base Industrial de Defesa: contextualização histórica, conjuntura atual e perspectivas futuras. Article available at: Mapeamento da Base Industrial de Defesa [Mapping of the Defense Industrial Base]. -- Brasília: ABDI - Brazilian Agency for Industrial Development: Ipea - Institute for Applied Economic Research, 2016

²For more information, access: <<https://www.conectas.org/acoes/desenvolvimento-e-direitos-socioambientais/controle-comercio-de-armas>>.

³ Amnesty International Luxembourg, Report: Banks, arms and human rights violations published in 2016 available at: <https://anistia.org.br/wp-content/uploads/2016/01/Banks_arms_and_human_rights_violations_FINAL_03.pdf>.

preserve its sovereignty and national integrity) and national defense (set of State measures and actions to defend its territories, sovereignty and national interests against external threats⁴). In this sense, some recent legislation has encouraged the development of the Brazilian weapons industry, aiming to reduce the country's dependence on weapons production by other countries.⁵

This Policy will focus on the use of weapons and violation of human rights in view of the high volume of ammunition exports and the Arms Trade Treaty, ratified by Brazil in 2018.

4. Social and Environmental Aspects

Below, we list the eight most relevant topics in this sector which BTG Pactual will analyze.

4.1. Productive Chain and Suppliers

For suppliers and/or producers responsible for the final disposal of waste, in addition to verifying the environmental compliance of their activities (environmental permits and authorizations), the respective certificates of disposal of waste/tailings must be submitted periodically, as well as other authorizations required by environmental legislation (such as authorization to transport dangerous product/waste).

4.2. Dangerous Products

Dangerous products are those posing a risk to health, public safety or the environment.⁶ Dangerous products regulated by certain authorities - Ministry of the Environment, Federal and Civil Police, Army - are controlled products. Weapons and ammunition factories use substances (controlled products), whose use must be authorized by the Army, Federal Police and Civil Police (in the latter case, according to state legislation).

In addition to the authorization for its use (which may include import, export, marketing, transport, storage, etc.), the counterparty will be checked as to policies or manuals applicable to its handling and storage, considering the necessary care required to carry out these activities for the high hazard of these substances.

4.3. Atmospheric Emissions and Climate Change

Weapons and ammunition production plants are responsible for emitting particulate matter, sulfur dioxide, carbon monoxide and volatile organic compounds. Therefore, they must monitor their emissions to verify compliance with legal standards to avoid fines or other penalties (suspension of activities, redress the damage to the environment, etc.). The ESG team will verify any good practices to control these emissions to map and mitigate the risks related to this issue.

⁴The Brazilian Defense Policy defines defense goals as (i) ensuring sovereignty, Brazilian heritage and territorial integrity; (ii) defending Brazilian interests and Brazilian people, goods and resources abroad; (iii) contribution to the preservation of cohesion and national units; (iv) contributing to the regional stability; (v) contributing to the maintenance of international peace and security; (vi) keeping a modern, integrated, trained and balanced Armed Forces, with growing professionalism, operating together and properly deployed in the Brazilian territory.

⁵The Defense Industrial Base Promotion Law (Brazilian Law 12598/2012) establishes specific rules for the purchase, contracting and development of products and defense systems.

⁶Reference to the definition in Brazilian Decree 96044 of 1988.

4.4. Effluents

The main effluent generated in the production of weapons and ammunition comes from the cooling tower. This effluent is composed of a mixture of water and oil, and because of this composition, it cannot be released into the water body without treatment, for the risk of causing the soil, subsoil and groundwater contamination. If this occurs, the counterparty could be subject to fines (legal risk) or stoppage of activities (operational risk). Therefore, the ESG team will verify if the counterparty carries out the treatment of its effluents, and the proper destination/disposal of this residue/tailings, according to the applicable environmental legislation.

4.5. Waste and Contaminated Areas

The waste generated by this sector includes contaminated personal protective equipment and drums with degreaser, polisher, soluble oil, lubricants and solvents. The counterparties must have plans to describe the actions of collection, storage, transportation, transshipment, treatment and destination and/or environmentally adequate final disposal of these materials.

Special attention must be given to drums with oil or oily residues to avoid soil and groundwater contamination. Good practices are observed with: (i) the installation of containment basins and devices to contain oil spills on machines; (ii) storage (new and used oils) in a proper place with impermeable floor and the containment basin.

In the case of a contaminated area or an area with contamination signs, costs associated with the process of identifying and remedying the area can be high, representing a credit risk (impairing the ability to pay the debt). If a factory property is received as a guarantee in an operation and this guarantee is executed in the future, BTG Pactual could be responsible for assuming the redress costs and eventual compensation for the environmental damage caused by the contamination, even if it has not given rise to it (legal and credit risk).

4.6. Noises and Occupational Safety

Noise emissions are related to the operation of the forging, thermal and surface treatment workshop.

Regarding occupational health and safety risks, noise emissions outside legal standards can affect the entire human body, altering mood and reducing the ability to concentrate on performing tasks. At extreme levels, it can cause cardiovascular disorders and irreversible hearing loss.

Mitigation measures include the use of personal protective equipment, training on the topic, as well as the implementation and development of action plans for any identified irregularities. The ESG team will verify whether the counterparty has good practices for mapping and mitigating risks related to this issue.

Appropriate communication channels with workers can be used to mitigate reputational risk. The company is recommended to maintain open, transparent, and reliable communication channels with both its own and third-party workers. The communication channels will be evaluated, according to the

analyzed risk, based on their method of dissemination, access, confidentiality, non-retaliation against the complainant, and transparency of treatment and response procedures.

4.7. Environmental Emergencies

Special care must be taken with the storage of firearms and ammunition, given the high risk of explosion which can lead to interruption of activities (operational risk) and the inability to pay the debt. The counterparty must have control systems for environmental emergencies and firefighting, defining those responsible, actions in case of emergencies and periodic training.⁷

Firefighting systems may deal with: (i) fire and panic safety signs; (ii) emergency lighting in all the building's exit routes and in places where people tend to congregate; (iii) alarms in all facilities; (iv) clear indications of emergency exits to ensure the safe evacuation of the building and pressurization system; and (v) employees' training. The ESG team will verify the existence of these points for mapping and mitigating risks related to this topic.

4.8. Human Rights

The Universal Declaration of Human Rights⁸ establishes that every human being has the right to life, liberty and security of person, and "no one will be subjected to torture or cruel, inhuman or degrading treatment or punishment"⁹. These same protections were internalized in our country and are on the list of fundamental rights of the Constitution of Brazil, which compliance is guaranteed to all Brazilians and foreigners in the country.

In 2013, the United Nations signed the Arms Trade Treaty ("Treaty"), whose main goals are (i) to establish standards for the international arms trade and (ii) to prevent and eradicate the illicit trade in conventional weapons.^{10,11} To achieve these goals, the Treaty prohibits any transfer of arms between countries if the country responsible for transferring the arms is aware =they will be used to commit genocide, crimes against humanity, and/or war crimes.^{12,13,14}

⁷According to the Ministry of the Environment, environmental emergency is defined as "sudden threat to the well-being of the environment or public health due to the release of some harmful or dangerous substance or even due to a natural disaster.

MINISTRY OF THE ENVIRONMENT, Roadmap for the preparation of the Brazilian Emergency Action Plan. Available at: <https://www.mma.gov.br/estruturas/sqa_p2r2_1/arquivos/relatorio_do_produto_3_vol_i_rev02_pae_federal_final_106.pdf>.

⁸ Available at: <<https://nacoesunidas.org/wp-content/uploads/2018/10/DUDH.pdf>>.

⁹These rights were highlighted by UN Resolution HRC 29/2015 on human rights and firearms and replicated in the article Armas Pequenas, Grandes Violações by Daniel Mack and published in the Revista Internacional de Direitos Humanos in 2015, available at: <http://www.mpsp.mp.br/portal/page/portal/documentacao_e_divulgacao/doc_biblioteca/bibli_servicos_produtos/bibli_boletim/bibli_bol_2006/Revista_SUR_22.pdf>.

¹⁰ The Arms Trade Treaty was ratified in 2018 through [Brazilian]Legislative Decree 8: <<https://www2.camara.leg.br/legin/fed/decleg/2018/decrolegislativo-8-15-fevereiro-2018-786167-tratado-154861-pl.html>>.

For the purposes of this treaty, the following are considered Weapons: battle tanks, armored combat vehicles, large-caliber artillery systems, combat aircraft, attack helicopters, warships, missiles and missile launchers, small and light weapons.

There are other international documents on weapons: (i) Convention on the Prohibition of the Development, Production, Storage and Use of Chemical Weapons and on their Destruction; (ii) Dispersal Munitions Convention (prohibits the use, transfer and stockpiling of cluster bombs), (iii) Nuclear Non-Proliferation Treaty.

¹²Genocide is defined by Article 6 of the Rome Statute of the International Criminal Court ("Statute of Rome") as: any act committed with the intention of destroying all or part of a national, ethnic, racial or religious group. The Rome Statute was promulgated by Brazil through Decree 4388/2002: <http://www.planalto.gov.br/ccivil_03/decreto/2002/d4388.htm>.

¹³According to Article 7 of the Rome Statute crimes against humanity are defined as: act of murder, slavery, extermination, deportation or forced transfer of a generalized or systematic population, among others, against any civilian population.

¹⁴War crimes presuppose the existence of a conflict, if international or not, related to crimes: (i) willful murder, (ii) torture or other inhuman treatment, including biological experiments, intentionally causing great suffering or serious harm to integrity physical or health, among others. This concept was defined by Article 8 of the Rome Statute.

In this sense, and in line with Brazilian Decree 9,571/2018 establishing the Brazilian Guidelines on Business and Human Rights, the selling companies is liable for identifying risks of impact and violation of human rights in the context of their operations, by adopting preventive measures and adequate control.¹⁵

The identification of risks related to Human Rights is carried out through due diligence, under the Due Diligence Guide of the Organization for Economic Cooperation and Development (“OECD”), which provides that the due diligence must be carried out in proportion to the seriousness and the probability of adverse impact¹⁶. Any failure to identify impacts on human rights and adopt mitigation measures could pose a reputational risk to BTG Pactual.

¹⁵ Decree available at: < http://www.planalto.gov.br/ccivil_03/ato2015-2018/2018/Decreto/D9571.htm>.

¹⁶ Study “Arms Trade and Corporate Responsibility” details the application of the OECD Due Diligence Guide in the arms and ammunition segment and mentions that it analyzed arms companies in Europe. One of the study’s conclusions was no European company had a clear commitment to respecting human rights. Available at: < <http://library.fes.de/pdf-files/iez/15850.pdf>>.

Annex: Sector Categorization Matrix - Social, Environmental and Climate Risk Document

Risks	Description	Category
Social Risk	Consolidated assessment	Low
	Slave labor	Irrelevant
	Child labor	Irrelevant
	Occupational health and safety	Low
	Damage to populations or communities	Irrelevant
	Other factors	Irrelevant
Environmental Risk	Consolidated assessment	Medium
	Energy: use and conservation	Low
	Water: use and conservation	Low
	Water: pollution	Medium
	Waste: management and disposal	Medium
	Air: pollution	Low
	Biodiversity and natural resources: use and conservation	Low
	Hazardous materials: disasters	Medium
	Soil: contamination	Medium
	Other factors	Medium
Physical Climate Risk	Consolidated assessment	Irrelevant
	Adverse weather conditions	Irrelevant
	Long-term changes	Irrelevant
	Other factors	Irrelevant
Climate Transition Risk	Consolidated assessment	Irrelevant
	Public policies/Legislation	Irrelevant
	Technology	Out of scope
	Markets/Consumers	Out of scope
	Other factors	Out of scope