



CSR REPORT 2017

MARCH 8, 2018



CORPORATE SOCIAL RESPONSIBILITY

RESPONSIBILITY IS ONE OF OUR FIVE CORE VALUES
AND EMBEDDED IN HOW WE CONDUCT OUR BUSINESS.

This constitutes our statutory report on CSR for the financial year 2017, cf. Section 99a of the Danish Financial Statements Act (“Lovpligtig redegørelse for samfundsansvar, jf. årsregnskabslovens §99a”). The report forms part of the management’s report in Scandinavian Tobacco Group’s annual report for 2017 and covers the financial year 1 January – 31 December 2017.

Scandinavian Tobacco Group’s business model involves the manufacturing and sale of tobacco products. The tobacco products, which are produced with tobacco and other materials from third party suppliers, include cigars, pipe tobacco and fine-cut tobacco. These products are sold via the Group’s own sales companies, via third party importers and via wholesalers to retailers in approx. 100 markets across the world. In the US we conduct direct sales to consumers via our online channel and catalogues, and in the US and in a couple of European markets we have direct-to-consumer sales in brick and mortar shops.

We want Scandinavian Tobacco Group’s business to be conducted to the highest standards. We are committed to honest and ethical behaviour, and we want commercial partners, employees, civil society, regulators and others with whom we engage, to consider us to be trustworthy and transparent.

Our Code of Conduct describes the behaviour we expect from every one of our employees in order to ensure compliance and high ethical standards across our business. The Code of Conduct also comprises our fundamental beliefs and overall policies in the area of social responsibility, including our commitment to respect human rights and labour rights, to limit our impact on the environment and our will to provide safe and healthy working conditions for our employees. Based on the Code of Conduct, we develop internal policies, guidelines and projects to turn the Code into actions and

to continuously improve in terms of sustainability. Our Code of Conduct is available online on st-group.com/codeofconduct.

The fact that smoking comes with a health risk is a fundamental premise for the way we operate our business, and so it is our fundamental belief that nobody below the age of 18 should smoke. Our own Marketing Principles ensure that we not only comply with the law but employ responsible marketing and sales practices across all markets in which we operate. We ensure compliance with our Marketing Principles through a close dialogue between Group Marketing and Legal.

OUR VIEW ON SMOKING

Smoking is for adults only, and the health risk must be taken seriously by everybody. Every smoker should balance the pleasure of smoking against the risk involved, and then make a personal choice whether to smoke or not. We do not work to increase the number of smokers or to grow the total market for tobacco. We grow our business by growing our market share and by encouraging smokers to choose our products and categories over those of competitors.

We have a global Whistleblower Scheme which facilitates reporting by employees of illegal, dishonest and wrong behaviour. We prioritise transparency and compliance and urge employees to assist us in succeeding with that task.

OUR ENVIRONMENTAL IMPACTS

OUR POLICY

We acknowledge the importance of protecting the environment and strive to reduce the impact of our activities on the environment. We seek to reduce the use of resources like water and energy in our production facilities, and we manage and seek to reduce the amount of waste as well as emissions of air and water. Through these initiatives to protect the environment, we aim to also reduce our impact on the climate.

ACTIONS

The greatest risk for our company having a negative impact on the environment arises in our production facilities around the globe. These vary between very large, modern plants and facilities where there is little automation and only few machines.

We structure our environmental footprint as part of our Environment, Health and Safety (EHS) Programme. Every second year, every production plant undergoes a comprehensive on-site review, which in regards to the environmental aspect focuses on energy and water consumption, emissions and waste. The EHS programme ensures the application of best practices across our Group. We strive to focus on energy saving and aim to limit, reuse and recycle waste where possible. In 2017, the EHS audit cycle included our four factories in the US, Belgium and Denmark. The ambition set in 2011 is that all facilities in the EHS Programme shall achieve an overall score of at least 80% in 2017. With the results of the last cycle in 2017 included, the average score for the 11 production facilities is 81% (equal to that recorded in 2016), with scores for the individual facilities ranging from 75% to 91% and four facilities scoring below the target of 80% (i.e. one factory less than in 2016, however, one

factory which scored below the 80% target was closed in 2017 and thus not included in the 2017 reporting).

Over the past years, the Group has gradually installed energy-saving equipment, and that was also the case in 2017. New machinery and the installation of LED lighting in some of the production facilities contributed to a reduction in energy consumption. In 2017, the energy consumption in the Group's production facilities increased with 2% compared to 2016 which can be explained by the fact that two European factories in 2017 were running additional hours and shifts in connection with the closing of two other factories.

The amount of tobacco waste generated in connection with the Group's production in 2017 increased with 0.6 percentage points compared to 2016. The share of the tobacco waste that was recycled increased from 23% to 30% while the share that was used for landfills reached 21% (from 18%). The amount of general waste (non-tobacco) generated in 2017 was at par with 2016. The share thereof that was recycled was 64% compared to 65% in 2016.

Wood is used as fuel in the curing of certain tobacco types that we buy, and we also use wood for cigar boxes for some of our cigars. In the Dominican Republic, we have for several years been actively involved in a reforestation project. In 2017, employees in the country planted more than 2,000 trees thus again making a valuable contribution to the reforestation in the local area. Our employees have since 2009 planted a total of more than 23,000 mahogany, oak, cedar and acacia trees in the Dominican Republic. Also, in Honduras, our local employees continued their engagement in a reforestation project which started in 2010 with the support of the company and the involvement of other stakeholders. Again in 2017, 600 pines were planted by dedicated employees in connection with this project. In Indonesia, our local company in 2017 again sponsored the planting of 500 trees in the area as part of the continued contribution to a government project aimed at preventing landslides and erosions resulting from deforestation.

Going forward, we will continue to apply the high standards of our EHS Programme in the effort to improve and reduce our impact on local communities and the environment. We intend to continue to optimise and reduce energy consumption where possible. Further, the amount of waste should go down, and the management of waste through recycling and environmentally optimal disposal will also be in focus in the coming years. In 2018, we expect five of our factories in the Netherlands, the Dominican Republic, Honduras and Nicaragua to undergo their regular audit under the EHS Programme.

OUR PEOPLE AND COMMUNITIES

OUR POLICY

Our employees are the foundation for the success of our business and their well-being is critical to us. We want all our employees to enjoy safe and healthy working conditions, and seek to reduce the risk of accidents and work-related illnesses. We treat everyone with respect, trust and dignity. No form of discrimination is tolerated, as we embrace everyone irrespective of gender, nationality, age, religion, race, ethnicity, political opinion, union membership, sexual orientation, disability, health status or any other characteristic. We value the dialogue and collaboration with our employees, and aim to apply good labour practices in all our operations.

We respect that our employees have freedom of association, the right to be represented by a union and the right to bargain collectively. Terms of employment and working conditions, as a minimum, comply with the law, including any law on minimum wage.

ACTIONS

In 2017, we continued to have good, constructive dialogue with our employees and their representatives. This was also the case during the process ahead of the closure in 2017 of production facilities in Belgium and Denmark.

In 2017, we carried out a Group-wide engagement survey to capture the general level of engagement and satisfaction among all our employees. The last survey was conducted in 2014. The response rate in 2017 was 93% and the engagement rate was high, 87%, compared to an external benchmark of 70%. Even discounting the high scores from regions that account for approximately half of the Group's employees (Nicaragua, Honduras and the Dominican Republic), the overall engagement score was high, 80%. This means that, among our employees, there is a very high degree of general satisfaction with the workplace and their job. However, there are discrepancies and parameters in the survey which show room for improvement. For instance, the survey revealed a need to ensure that individual employees see a clearer link from the Company's overall vision and strategy to their own work, a task which is high on the agenda not only for the Executive Board but for every manager in the Group. Because the methods were not the same, the results of the 2017 engagement survey are not directly comparable to the same high scores resulting from the 2014 survey. However, both surveys revealed a strong engagement and empowerment among the Group's employees on which we can continue to build.

As part of the general audit cycle of our EHS (Environment, Health and Safety) Programme, audits were conducted in four facilities in the US, Belgium and Denmark in 2017. All facilities undergo audits every two years. The audits include the identification of work processes and equipment, which may imply a risk to our employees, and the audits are followed up by action plans and controls to ensure continuous improvement in terms of health and safety. The audits in 2017 showed a continued high level of compliance with our requirement for healthy and safe working conditions.

In 2016, the number of work-related accidents (i.e. Lost Time Accidents, i.e. injuries leading to more than one working day's absence) in our factories was 80, up from 71 in 2015. The accident rate (number of accidents per 200,000 hours worked) increased from 1.05 in 2015 to 1.18 in 2016. In 2017, certain initiatives were taken both at the local level and as part of the EHS Programme to prevent accidents and turn this unfortunate development

around. Unfortunately, we did not succeed in decreasing the number of accidents in 2017, as the Lost Time Accidents increased to 83, resulting in an increased average accident rate of 1.31 in 2017. One accident is one too many, and we will in 2018 continue the important work to reduce the risk of accidents by increasing attention and implementing improved processes and behavioural changes.

In several of our production facilities and offices, the employees are offered regular health checks. This is of particular value in communities where health services are not readily available to everybody. We continued in Nicaragua, Honduras and the Dominican Republic to facilitate and offer scholarships for the education of employees' children. Examples of our support to employees further include access to transportation, basic household needs, food and medicine. We plan to continue activities focusing on the well-being, development and education of our employees.

Our production entities are often important for the well-being of the local community as they offer employment to many people. Our engagement in the local communities goes beyond that: In 2017, our entities in Indonesia, Honduras, Nicaragua and the Dominican Republic supported their local communities by sponsoring equipment to local hospitals, schools and other community institutions, as well as through charitable contributions to people in need. As part of their engagement in the local community, some of our Group companies employ people with disabilities, thus including as part of their work force people who may otherwise not find meaningful employment.

HUMAN RIGHTS

OUR POLICY

We respect internationally recognised human rights as described in the International Bill of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the UN Guiding Principles on Business and Human Rights and conventions describing the rights of children .

Scandinavian Tobacco Group neither accepts nor uses child labour. We respect children's rights, including their right to development and education, rest and play. No child should be subject to forced labour or to child labour, such as work for which the child is too young (below the applicable minimum age), or work which is mentally, physically, socially or morally dangerous to children, or work that interferes with their schooling.

Our aim is to avoid causing or contributing to adverse impacts on human rights, including children's rights, and to address and mitigate such impacts if they occur.

ACTIONS

It is a concerning fact that tobacco growing, like other types of agriculture, can involve great risk of child labour and below-standard working conditions. It is a challenge to address this issue efficiently. The Group has numerous third-party suppliers, and only in some cases are they in direct contact with the farmers or are farmers themselves.

We currently conduct relatively simple reviews in this field of selected tobacco suppliers, and only at irregular intervals. With our new global tobacco procurement function covering all our product categories, we aim to develop and implement a uniform, systematic and risk-based approach to the due diligence related in particular to child labour. We plan to make this improvement of our due diligence processes in the tobacco supply chain gradually in 2018-2019 by developing our capabilities in the assessment and influencing of the working and social conditions where we source tobacco. We will apply a risk-based approach and concentrate our efforts on where there is the best possibility of making a real difference.

Scandinavian Tobacco Group has for many years been engaged with the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation, and we will continue to be so in 2018. The Foundation, which is a multi-stakeholder organisation, is involved in global advocacy in the area of child labour and runs long-term projects in tobacco-growing communities to withdraw children from child labour, support education of the children and adolescents,

and address some of the root causes of child labour. More information can be found on www.eclt.org.

ANTI-CORRUPTION AND BRIBERY

OUR POLICY

Scandinavian Tobacco Group has a zero-tolerance approach to corruption and all forms of bribery, including facilitating payments.

ACTIONS

Scandinavian Tobacco Group operates in many countries, including in parts of the world where corruption and bribery are affluent and create serious obstacles to the sound development of societies. We will take measures to ensure that our Company has no part in any such activities, irrespective of how common they may be in a particular market where our products are sold.

Our anti-corruption policy contains examples of non-acceptable conduct, describes principles for gifts and hospitality, and how to report incidents. We did not conduct training as we had planned in 2017, but have it as a priority activity for 2018 to ensure that all relevant stakeholders receive more elaborate training in the practical application of our anti-corruption policy.

Through our Whistleblower Scheme, all employees in the Group can easily report any suspected breaches of the zero-tolerance policy.

¹ Please see our Code of Conduct at our website www.st-group.com for the full list.



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