



# CSR REPORT

2019

# INTRODUCTION FROM CEO NIELS FREDERIKSEN

**R**esponsibility is one of Scandinavian Tobacco Group's core values and embedded in how we conduct our business.

Scandinavian Tobacco Group is committed to transparent and ethical behaviour and we want all of our internal and external stakeholders – commercial partners, employees, civil society, regulators and others with whom we engage – to consider us a responsible corporate citizen. We believe that our commitment to responsibility benefits our business, our employees, and the communities where they work and live.

The fact that smoking comes with a health risk is a fundamental premise for the way we operate our business. We have developed our own position on smoking and related marketing principles, to ensure that we not only comply with the law but also employ responsible marketing and sales practices across all the markets in which we operate.

In this report, we want to share how we approach our environmental impacts, our commitments to our



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employees and communities, and our views regarding human rights, anti-corruption and bribery.

Our CSR Report is evolving. This reflects our efforts to strengthen our engagement with CSR, where we introduced new governance in late 2019 and are now in the process of developing a structured and detailed CSR strategy. Our strategy will be introduced in 2020.

Our report this year also includes selected data in tabular form covering the years 2017 to 2019, which we hope offers additional transparency regarding the impacts of our production, and provides additional insights regarding our employees.

We also, in this year's report, want to continue to provide additional insight into some of the specifics of our CSR work. Readers will find information regarding how we support the communities where many of our products are made, as well as our efforts to combat the use of child labour.

The Group has a Code of Conduct that describes the behaviour we expect from every one of our employees in order to ensure responsibility and high ethical standards across our business. The Code of Conduct also defines many of our fundamental beliefs and general policies in the area of corporate social responsibility, including our commitment to respect human rights and labour rights, to limit our impact on the environment, and to strive to provide safe and healthy working conditions for our employees.

Our Code of Conduct is available online on [stgroup.com/en/our-company/governance/reports-and-documents](https://stgroup.com/en/our-company/governance/reports-and-documents)

We believe our Code of Conduct helps guide all of our employees in modelling responsible business conduct.

We are excited about our commitment to a journey that we believe will lead to sharper focus on and more effective impact in our CSR work in the years ahead.

We look forward to sharing our growth and progress with you.



**Niels Frederiksen**  
President and CEO

# ABOUT THIS REPORT

This report constitutes our statutory report on CSR for the financial year 2019, according to Section 99a of the Danish Financial Statements Act (“Lovpligtig redegørelse for samfundsansvar, jf årsregnskabslovens §99a”) for the Scandinavian Tobacco Group group of companies.

The Group is headquartered in Copenhagen, Denmark. Cigars International and General Cigar have offices in Bethlehem, Pennsylvania and Richmond, Virginia, respectively. We have sales companies in 14 countries, and production sites in Denmark, Belgium, the Netherlands, the United States, Indonesia, Nicaragua, Honduras, and the Dominican Republic.

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 all over the world, include cigars, pipe tobacco and fine-cut tobacco. These products are sold in approx. 100 markets across the world via the Group's own sales companies and via third party importers. In the U.S., we conduct direct sales to consumers via the internet and catalogues and, in the U.S. as well as in a couple of European markets, we also have direct-to-consumer sales in brick and mortar shops.

## CONTENT AND STRUCTURE

This report addresses four broad focus areas for our work with Corporate Social Responsibility:

- **Our Environmental Impacts** – In this section, we look at how and where our products are made and review key metrics with relevance for our local production environments and, by extension, their broader climate-related effects.
- **Our Employees and Communities** – Here we discuss important considerations like how we work to maintain a safe working environment for our employees, and how we train and provide for their well-being. We also review how we measure up in providing a diverse and inclusive workplace, including our gender balance in management.
- **Human Rights** – We wish to respect the human rights of our employees, and we seek to actively combat the use of child labour in tobacco growing and manufacturing. This section provides more details regarding those efforts.
- **Anti-Corruption and Bribery** – We as a company have a zero-tolerance approach to corruption and to any form of bribery. This section addresses how we seek to implement those policies and to maintain the highest ethical standards in all places where we do business.

In each of these areas, this report states our policy and describes the actions we take to support those policies. We also strive to be transparent and note where we seek to do better.

## AN EVOLVING APPROACH TO CSR

Responsibility is one of Scandinavian Tobacco Group's core values and embedded in how we do business. We have for many years been active with CSR efforts in the communities in which we make and sell our products.

In 2019, our Executive Board decided to strengthen the Group's focus on CSR through a new governance structure and strategy.

The new CSR organization, approved in September, 2019, is governed by a Steering Committee chaired by our Chief Financial Officer, and includes our Executive Vice President for Operations, our Chief Human Resources Officer, our General Counsel and SVP for Legal, Regulatory and Public Affairs, and our Head of Investor Relations. The CSR Steering Committee is responsible for defining the overall framework and resource allocation for our CSR activities, with reference to the Executive Board and the Board of Directors. We have also named a new Head of CSR who will be responsible to the CSR Steering Committee for coordinating activities such as CSR strategy development, follow up in different CSR focus areas and activities, and producing the annual CSR Report.

The Group is currently developing a new CSR Strategy which we expect to approve and roll out in the first half of 2020. That strategy will review and prioritise CSR focus areas, identify activities within those focus areas, and set the deliverables necessary to measure progress and success. As part of this strategy, we also expect for the first time to link our CSR activities to relevant UN Sustainable Development Goals.

## TOBACCO AND RESPONSIBILITY

We acknowledge the health risks associated with tobacco and this is a fundamental premise for how the Group conducts its business. We have adopted, at the Board of Directors level, a position on smoking (see Our View on Smoking on this page), and we have also adopted marketing principles that also address youth smoking.

## 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.

# OUR ENVIRONMENTAL IMPACTS

## OUR POLICY

Scandinavian Tobacco Group acknowledges the importance of limiting our environmental and climate impact. We seek to reduce the use of resources like water and energy in our production facilities, as well as effectively manage our waste.

## ACTIONS

The Group manages our environmental footprint and impact through our Environment, Health and Safety (EHS) Programme, which in 2019 covered 11 production sites globally in Denmark, Belgium, the Netherlands, the United States, Indonesia, Nicaragua, Honduras and the Dominican Republic. These facilities range from very large, modern plants to others where there is little automation. Production clearly poses the largest category of real and potential environmental and climate risks associated with our business. Overuse of energy or water, as examples of potential risks, are costly both to our business and to

the communities where we produce, so we seek to monitor and use these resources responsibly.

With intervals of two to four years, depending on the latest score achieved, every production facility in the EHS Programme undergoes a comprehensive on-site review which, with respect to the environment, focuses on energy and water consumption, and waste. The EHS programme serves to ensure the application of best practices across our Group. We focus on energy savings and aim to limit, reuse and recycle waste where possible. No EHS production site audits were conducted in 2019, but we expect in 2020 to conduct audits in Indonesia, Honduras, and Nicaragua.

Our ambition is that all facilities covered by the EHS Programme achieve an overall score of at least 80% in their review. The average score in 2019 for the 11 production facilities part of the EHS programme was

81%, with scores for individual facilities ranging from 75% to 91% and 3 facilities scoring below the target of 80%. The Group has been incrementally installing energy-saving equipment in our production facilities, which continued in 2019. These and other measures this past year helped contribute to an overall reduction in energy consumption. In 2019, reported total energy consumption in Group production fell by 6.4% compared to 2018.

Water consumption in Group production increased slightly, by 1.1%, in 2019 when compared to 2018. This increase was partly associated with a damaged underground water pipe at a production site in the Dominican Republic, which has since been repaired.

The amount of tobacco waste generated in connection with the Group's production in 2019 decreased by 13.1% compared to 2018. The amount of general waste (non-tobacco) generated in 2019 was 8% less than in 2018.

We will continue to strive to improve and reduce our environmental impacts in our local communities, and reduce the amount of waste we produce.

## Selected EHS Data

Area / Indicator	2017	2018	2019
<b>Resource Use</b>			
Total Energy Use (gigajoules)	193,299	213,871	200,123
Water (m3)	157,535	181,469	183,504
<b>Waste</b>			
Tobacco Waste (tons)	2,548	2,602	2,260



## REPLANTING AND REFORESTATION EFFORTS IN THE DOMINICAN REPUBLIC

Wood is used as fuel in the curing of certain tobacco types that we purchase, and we also use wood in producing cigar boxes for some of our cigars. Because trees are a renewable resource, we seek to mitigate the impact of our production through replanting and reforestation programs near selected production sites.

In the Dominican Republic, General Cigar Dominicana, a Group company, has for nine years organised an annual Reforestation Day where employees and their families work with local partners to plant trees.

In 2019, 210 employees of General Cigar Dominicana and their family members planted more than 6,000 trees in collaboration with a local non-profit organisation.

Since 2009, General Cigar Dominicana employees have planted a total of more than 30,000 mahogany, oak, cedar and acacia trees and other plants across the Dominican Republic.

# OUR PEOPLE AND COMMUNITIES

## OUR POLICY

Our employees are the foundation for our success and their well-being is critical to us. We want all of our employees to enjoy safe and healthy working conditions, and we actively work to reduce the risk of accidents and work-related illnesses. We also believe that our employees should be treated with respect, trust and dignity. No form of discrimination is tolerated, and 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, must always comply with local law, including any law on minimum wage.

## ACTIONS

We believe in empowering employees to develop their full potential. Engagement among our employees is high and compares well to external benchmarks. As part of our transformational programme, Fueling the Growth, we have regularly carried out multiple engagement surveys, and we plan to continue these in 2020.

Employee safety is a priority for the Group. As part of the general audit cycle of our EHS (Environment, Health and Safety) Programme, safety audits identify work processes and equipment which might pose a

risk to our employees, and those audits are followed up by action plans and controls to ensure continuous improvement in terms of health and safety.

In 2019, the number of work-related accidents (Lost Time Accidents, i.e. injuries leading to more than one working day's absence) in our production facilities was 54, down from 67 in 2018. The accident rate (number of accidents per 200,000 hours worked) also decreased from 1.01 in 2018 to 0.91 in 2019, continuing a positive trend.

We also in 2019 continued to offer regular health checks to employees in several of our production facilities and offices. This is of particular value in communities where health services might not be readily available to all. We plan to continue activities focusing on the well-being, development and education of our employees.

Our production facilities are often an important focal point for the well-being of their local communities, as they offer employment to many people. Our production facilities in Indonesia, Honduras, Nicaragua and the Dominican Republic all supported local communities through initiatives that included sponsoring equipment

## Key Safety Data - Production Facilities

Area / Indicator	2017	2018	2019
<b>Safety</b>			
Total Lost Time Accidents	83	67	54
Group Average Accident Rate	1.31	1.01	0.91





to local hospitals, schools and other community institutions, as well as providing charitable contributions to people in need. We also continued to facilitate scholarships for the education of employees' children in Nicaragua, Honduras and the Dominican Republic.

### DIVERSITY AND INCLUSION

The section of the report constitutes our statutory report on the gender composition of the management for the financial year 2019, according to Section 99b of the Danish Financial Statements Act ("Lovpligtig redegørelse for den kønsmæssige sammensætning af ledelsen, jf. årsregnskabslovens § 99 b"). The report forms part of management's report in the Group's annual report for 2019 and covers the financial year 1 January – 31 December 2019.

At least once a year, the Board of Directors discusses the composition of the Board of Directors as well as the Executive Management. The Board itself has an international profile. At present, four out of the seven shareholder-elected members of the Board of Directors are a nationality other than Danish and a total of five nationalities are represented. Members of the Board of Directors hold a wide range of commercial, FMCG, financial, management and tobacco industry experience and qualifications.

In Scandinavian Tobacco Group Assens A/S, the other Danish company of our Group which is subject to the reporting requirement in section 99b of the Danish Financial Statements Act, one of the three shareholder-elected directors is a woman (i.e. 33%).

### Diversity and Inclusion

Area / Indicator	2017	2018	2019
<b>Gender Balance (% women)</b>			
Board of Directors	17%	17%	28%
Senior Management	19%	20%	20%

The Board of Directors had set the goal that, by 2020, at least 25% of the shareholder-elected members of the Board of Directors should be women. The goal was reached in 2019 when two out of seven, or 28%, of the members were female. According to the Danish Financial Statement Act §99b this distribution is considered an equal distribution. The Board of Directors has therefore set a new goal that, by 2024, 30% of the shareholder-elected board members should be women.

### Women in senior management

We wish to have better representation of women at senior management level, as women are currently the under-represented gender. We aim to identify all talents with leadership potential in the Group, irrespective of gender, and want to identify and develop women who can grow into leaders and take on more responsibility or advance in their existing leadership roles. It continues to be our ambition that, in 2020, one-third of senior managers are women. We have not reached that goal yet. In 2019, 20% of the top three levels of the organisation were women.

Our Group's performance tracking process covers approximately 1,800 employees across functions and geographies evaluating the individuals' performance and potential. This process helps ensure that a gender diverse talent base is identified each year.

The Group has a tradition for channelling young university graduates with international profiles into key roles via our International Graduate Programme within marketing, sales and finance. The share of women recruited in the Programme from its inception to date is approximately 63%.

# 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 (Please see our Code of Conduct for the full list).

Scandinavian Tobacco Group neither accepts nor uses child labour in any part of our supply chain. 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, including 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 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

There is, unfortunately, a concern that tobacco growing can, like other types of agricultural work, involve a greater risk of child labour and below-standard working conditions. It is a challenge to address this issue effectively in the supply chain and on the ground in tobacco-growing communities.

We currently conduct relatively simple reviews of selected tobacco suppliers, and only at irregular intervals. We aim to develop and implement a uniform, systematic and risk-based approach to due diligence, particularly in relation to child labour but also in other labour matters. We had planned to make this improvement of our due diligence processes in the tobacco supply chain gradually starting in 2019 by developing our capabilities in the assessment and influencing of the working and social conditions where we source tobacco. We did not implement this project in 2019 as intended but have made this a priority for 2020. We wish to apply a risk-based approach and concentrate our efforts where we are better positioned to make a difference.

## SCANDINAVIAN TOBACCO GROUP AND THE ECLT

We have for many years also engaged with the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation, which we continued in 2019.

The ECLT advocates globally for strong anti-child labour policies, shares best practices to multiply its impact, and engages with rural families and their communities to withdraw children from child labour and ensure that they are educated, safe from exploitation, and encouraged to reach their full potential. It also seeks to address poverty as a root cause of child labour.

The ECLT is a multi-stakeholder organisation and runs long-term projects in tobacco-growing communities in several countries. Interested readers can find more information regarding the ECLT on their website at [www.eclt.org](http://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.

Negative impacts associated with corruption and bribery include both reputation and legal risks which can damage the Group, our business partners, and society. This is why we maintain a zero-tolerance policy toward corruption and bribery.

## ACTIONS

Scandinavian Tobacco Group operates in many countries, including in parts of the world where corruption and bribery are prevalent and have serious societal impacts.

We take measures to ensure that we have no part in any corrupt activities, irrespective of whether they are common in a particular market where our products are sold. In 2019, we developed an anti-corruption e-learning training module that will be introduced to selected employees in 2020.

Our anti-corruption policy contains examples of non-acceptable conduct, describes principles for gifts and hospitality, and details how to report incidents and seek guidance.

We also have a global Whistleblower program which facilitates reporting by employees of any behaviour suspected of being illegal, dishonest, or in breach of our zero-tolerance policy. We are implementing a new and improved Whistleblower reporting system in 2020, with better electronic reporting capabilities.

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