



CSR REPORT 2018

MARCH 14, 2019



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 2018, cf. Section 99a of the Danish Financial Statements Act ("Lovpligtig redegørelse for samfundsansvar, jf. årsregnskabslovens §99a").

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, via third party importers and via wholesalers to retailers. In the US, we conduct direct sales to consumers via the internet and catalogues, and in the US as well as in a couple of European markets we also have direct-to-consumer sales in brick and mortar shops.

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 good corporate citizens, trustworthy and transparent. We believe that our commitment to being responsible benefits our business.

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. We expect all employees to set a good example of responsible business conduct. The Code of Conduct also comprises our fundamental beliefs and general 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 initiatives to turn the Code into actions and to improve in terms of sustainability. Our Code of Conduct is available online on <http://st-group.com/en/our-company/governance/reports-and-documents>

The fact that smoking comes with a health risk is a fundamental premise for the way we operate our business. Consequently, it is our

fundamental belief that nobody below the age of 18 should smoke. We have developed our own Marketing Principles to 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 our Marketing and Legal departments.

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 prioritise transparency and compliance and urge employees to assist us in succeeding with that task and to speak up if they are concerned about potential violations of our Code of Conduct, legislation or policies. We have a global Whistleblower Scheme which facilitates reporting by employees of illegal, dishonest and wrong behaviour.

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

We have production facilities in several locations around the globe. Some are very large, modern plants, and others are facilities where there is little automation and only few machines. The greatest risk for our company having a negative impact on the environment arises in connection with our production.

We oversee our environmental footprint as part of our Environment, Health and Safety (EHS) Programme. With intervals of two-four years, depending on the latest score achieved, every production plant undergoes a comprehensive on-site review which – with respect to the environment – focuses on energy and water consumption, emissions and waste. The EHS programme serves to ensure the application of best practices across our Group. We focus on energy saving and aim to limit, reuse and recycle waste where possible. In 2018, the EHS audit cycle included two production facilities in the Dominican Republic and the Netherlands, respectively. Our ambition is that all facilities in the EHS Programme shall achieve an overall score of at least 80%. The current average score for the 11 production facilities part of the EHS programme is 81% (equal to that recorded in 2017), with scores for the individual facilities ranging from 75% to 91% and three facilities scoring below the target of 80% (i.e. one production facility less than in 2017).

Over the past years, the Group has gradually installed energy-saving equipment, and that was also the case in 2018. New machinery and the installation of LED lighting in some of the production facilities again this year contributed to a reduction in energy consumption. However, in 2018, the reported energy consumption in the Group's production

facilities increased by 11% compared to 2017 primarily because the reporting included an additional facility which was not part of the prior reporting, and secondly because one production facility in 2018 ran additional hours and shifts.

The amount of tobacco waste generated in connection with the Group's production in 2017 increased 2 percentage points compared to 2018. The share of the tobacco waste that was recycled increased from 30% to 35% while the share that was used for landfills was 16% (compared to 21% in 2017). The amount of general waste (non-tobacco) generated in 2018 was 3% below 2017. The share thereof that was recycled was 68% compared to 64% in 2017.

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 2018, employees in the country planted more than 2,800 trees making a valuable contribution to the reforestation in the local area. Our employees have since 2009 planted a total of more than 25,000 mahogany, oak, cedar and acacia trees and other plants in the Dominican Republic. 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. In 2018, 800 pines were planted by dedicated employees in connection with this project.

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 in our production facilities. Further, the amount of waste should go down, and the recycling and environmentally optimal disposal will be a continued focus area. It is currently the plan that in 2019 our four production facilities in Indonesia, Nicaragua and Honduras will 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

We believe in empowering employees to develop their full potential. The engagement among our employees is high and considerably higher than an external benchmark (80-87% vs. 70%). This was last documented in 2017, when we carried out a Group-wide engagement survey. The high degree of general satisfaction among our employees with the workplace and their job is a strong basis for our Company. In 2018 we followed up on one of the outcomes of the 2017 survey and took measures to improve the link between the Company's overall vision and strategy and the work of our employees.

As part of the general audit cycle of our EHS (Environment, Health and Safety) Programme, audits were conducted in two facilities in the Dominican Republic and the Netherlands, respectively, in 2017. All facilities undergo audits every two-four 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 most recent audits, including those conducted in 2018, showed a continued high level of compliance with our requirement for healthy and safe working conditions.

In 2018, 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 production facilities was 67, down from 83 in 2015. The accident rate

(number of accidents per 200,000 hours worked) decreased from 1.31 in 2017 to 1.01 in 2018. This is the lowest accident rate for several years. However, one accident is one too many, and we will in 2019 continue the important work to reduce the risk of accidents by increasing attention and implementing improved processes and behavioural changes.

In 2018, we continued to offer regular health checks to the employees in several of our production facilities and offices. 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 scholarships for the education of employees' children. Examples of our support to employees further include access to transportation and medicine. We plan to continue activities focusing on the well-being, development and education of our employees.

Our production facilities are often important for the well-being of their local community as they offer employment to many people and create livelihood. Our engagement in the local communities often goes beyond that: In 2018, our production facilities in Indonesia, Honduras, Nicaragua and the Dominican Republic for instance 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 staff 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 children¹.

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 in the supply chain and on the ground in the tobacco-growing communities. 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. We aim to develop and implement a uniform, systematic and risk-based approach to the due diligence related particularly to child labour but also related labour matters. We plan 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 will apply a risk-based approach and concentrate our efforts where we are better positioned to make a real difference. We did not implement this project in 2018 as intended but have made this a priority for 2019.

Scandinavian Tobacco Group has for many years been engaged with and contributed to the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation, and we will continue to do so in 2019. The foundation advocates globally for strong 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. The Foundation, which is a multi-stakeholder organisation, runs long-term projects in tobacco-growing communities in several countries with the aim to withdraw children from child labour, support education of the children and adolescents, and address poverty and other root causes of child labour. More information, including about the results of the ECLT foundation, 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 have it as a priority activity for 2019 to ensure that all relevant stakeholders receive more elaborate training in the practical application of our anti-corruption policy through e-learning and other tools, as we did not complete that task in 2018 as we had planned.

Employees are encouraged to report any suspected breaches of the zero-tolerance policy to their superior, the Legal department or through the Whistleblower Scheme.

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





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