

Our approach to sustainability

CEO comment

“At Swedish Match, an important part of our efforts of growth and development of the company is to bring positive change, both within our own organization and for the world around us – especially for those areas where we can have a real positive impact, or can reduce our negative impacts.

This past year, we have continued our knowledge-building within our six focus areas, and have strengthened and further clarified our key performance indicators. We have made substantial progress and I am pleased with the efforts made by our various focus area teams, and our entire Group Management Team, in driving our efforts with a number of actions already initiated.

Our six focus areas are where we devote most of our efforts, engagement and communication – both internally and outside of the organization. Each of the focus areas now have clearer goals and KPIs, and we are committed to take the actions we believe can best move toward those goals.

The ongoing journey in sustainability requires flexibility while maintaining a focused approach. There will always be challenges and risks, and evolution of those challenges and risks as both our knowledge and the world around us adapts to new situations and learnings. Our communications efforts, both within and outside

of the company, and tangible steps we have taken, are already bearing fruit. These efforts are bringing greater understanding, enthusiasm and engagement, and innovative ideas and action from employees, helping to contribute to positive change. We invite all of our stakeholders to engage with us by reading this sustainability report, exploring our website, and providing us feedback in order to help us to make further progress.”



Swedish Match’s vision is a world without cigarettes. Offering tobacco consumers alternative products to cigarettes is at the core of what we do. Pursuing our vision represents a great commercial opportunity as well as a significant contribution to society. From a total impact perspective, this is where we are likely to have the largest positive impact on society. We can also have a positive impact through how we manage our business and produce our goods.

Our sustainability strategy emphasizes six areas – public health, ethical business practices, equal opportunity, greenhouse gases, waste, and child labor, which are material to our Company as a whole and in the long term. Our vision of a world without cigarettes is central to our sustainability strategy and how we contribute to making the world a better place.

In our focus area **Improve public health**, we intend to displace cigarettes with attractive sources of nicotine for recreational use (such as Swedish snus and other nicotine containing products like

ZYN), which, apart from their addictive character, have little or no adverse health effects. We strive to develop products that are attractive to cigarette consumers and to inform them about the relative health risks of different nicotine containing products, to allow them to make an informed choice.

In our focus area **Ensure ethical business practices**, our Code of Conduct provides the basic platform for the way we do business. We work diligently to keep the Code of Conduct top of mind through training and dialogue within the Company.

In our focus area **Support equal opportunity**, we are dedicated to having an open and inclusive environment where all employees have equal opportunities to achieve their full potential. We have zero tolerance for discrimination.

In our focus area **Reduce greenhouse gases**, we set out to do our part in reaching the global targets on climate change, taking into account emissions in our full value chain.

In our focus area **Reduce waste**, we work systematically to reduce waste in production. We enhance the effectiveness of our work by sharing best practice across the Group.

In our focus area **Eliminate child labor**, we recognize that child labor represents a serious human rights violation in many parts of the world, including areas where we have suppliers. We are committed to improving our risk analyses and processes to proactively reduce and eventually eliminate child labor and related human rights issues with regard to this focus area in our value chain.

Group common roadmap

Our focus areas form the basis for our common roadmap; this is where we put extra effort and coordinate external reporting of our progress. Swedish Match is a global company made up of fairly autonomous local units. Our aim has been to establish a common group approach in our focus areas, while at the same time allowing for differences and tailored targets and actions at local operating unit level. Sustainability work spans across a broad array of topics, and for best impact and transparency we believe that group-wide efforts and reporting are most effective if concentrated to key areas of focus. Other sustainability efforts relevant to our Company, outside the scope of our focus areas, will continue to be encouraged and are best managed locally. This includes, for example, operational health and safety and emphasizing the well-being of our employees.

Assessing materiality

Our most recent stakeholder survey (with customers, consumers, suppliers, employees, the financial and scientific communities, as well as regulators) on sustainability topics was conducted in 2015. Results from the survey provided important input to a materiality analysis conducted in 2016. The process, resulting in our focus areas, was directed by the Group Management Team. Key internal stakeholders representing a wide range of departments and different operating units were involved and external expertise was consulted. Relevant sustainability frameworks¹⁾ were consulted in the process to define the issues that are material to Swedish Match. Materiality was assessed on the basis of the severity of issues in the global context, the Company's actual impact, our potential to directly or indirectly influence the issue, as well as its impact on the long term viability of our business.

Stakeholder dialogue

We engage with our prioritized stakeholders, including but not limited to our employees and investors, as part of our normal way of doing business. Through internal channels, such as townhall meetings and intranet communications, for example, we share examples of where we are and where we can make a difference in our focus areas. We also meet with sustainability representatives of various shareholders, to learn more about their issues, and to help them to better understand our efforts and rationale.

OVERALL GOALS



Improve public health. Our goal is to eliminate cigarette use and tobacco related morbidity and mortality by offering smokers attractive sources of nicotine for recreational use (such as Swedish snus and other nicotine containing products like ZYN).



Ensure ethical business practices. At Swedish Match, we will take the necessary steps to ensure that ethical business practices are maintained within our own company and in our relationships with all outside parties.



Support equal opportunity. Our continuing objective is to be a truly open and inclusive employer. In this environment, with zero tolerance for discrimination, all employees have equal opportunity to achieve their full potential – resulting in a more diverse workplace.



Reduce greenhouse gases. Our goal is to reflect the commitments outlined in the Paris Agreement and thereby reduce emissions of greenhouse gases in our value chain.



Reduce waste. Our goal is to reduce waste generated at our own production facilities.



Eliminate child labor. Our goal is the elimination of child labor in the Company's value chain.

Integrating sustainability

Sustainability is inherent in our value proposition, meaning that it is managed and driven from the highest levels of our organization. Our Group Management Team (GMT) has the overall responsibility for Swedish Match's efforts on sustainability. GMT and other leaders within the Group are committed and involved in the process to define and further develop the strategy. The CEO reports to the Board of Directors on progress. Heads of operating units are responsible for implementing the strategy in the operating unit under their responsibility. To make our sustainability strategy a reality in all parts of our company, we have built an organization across operating units to back up both development and implementation of the strategy. Swedish Match's sustainability teams provide a platform for inspiration and exchange of competence and ideas. The teams comprise representatives from our operating units and from the GMT for each focus area. Members of these teams are ambassadors at the operating unit level and take part in developing a plan for group common targets, actions and KPIs. They assure execution of actions at the local level and report on progress.

At Group level there is also a sustainability function that reports directly to the CEO and helps to drive continued progress within our sustainability focus areas and actions, facilitates the process towards implemented strategy, and communicates work and results to our important stakeholders.

¹⁾ Frameworks referred to include the UN Sustainable Development Goals, the UN Global Compact, the UN Guiding Principles on Business and Human Rights, and the GRI Standards framework.

Our value chain

Swedish Match manufactures snus and pouch products without tobacco, moist snuff, chewing tobacco, cigars, matches and lighters at 13 facilities¹⁾ – in Sweden, the US, the Dominican Republic, Denmark, the Netherlands, the Philippines and Brazil.

The value chain for our products includes research and development of new and refined products, raw material extraction and production, processing at suppliers, manufacturing at Swedish Match's facilities, transportation and distribution between the various value chain stages, and sales through retailers (customers) as well as consumer use and final disposal of product.

FOCUS AREAS



Raw materials for our products come from many geographies. Materials are mostly sourced through outside parties. There are strict requirements in sourcing.

With the GOTHIA TEK® standard, for example, there needs to be careful testing, at several stages of the value chain, and selection of raw tobacco. Testing starts at the farm level, which makes way for traceability, for our snus products. This way of working has influence on the long term standard for other tobacco products as well as for other raw material supplies.



Snus is distributed and sold to markets in Sweden and Norway through SMD Logistics, Sweden. Chew bags are distributed and sold through own and third parties in Europe. Moist snuff, US chewing tobacco and cigars, alongside snus and nicotine pouches without tobacco are distributed and sold to the US market via third party distributors from company owned warehouses. Matches and lighters are distributed and sold through a wide network of partners, worldwide. In Brazil, matches, lighters, and complementary products are distributed and sold through local partners.



The primary sales channels for our products are supermarkets, convenience stores, tobacconists, and gasoline stations. Other channels include bars, restaurants, airports, and ferries, along with e-commerce, exclusive snus stores and pop-up stores in various markets.

Tobacco products are subject to extensive requirements in local laws and regulations and our marketing departments work closely with our legal departments to assure compliance.



Our Supplier Code of Conduct forms the basis of our relationship with suppliers. Our greatest risks, impacts and potential for improvement in these stages of the value chain relate to ethical business practices, child labor and human rights, as well as greenhouse gases. These areas are in focus in our supplier due diligence and dialogue. To reach our goals in several focus areas we are dependent on fruitful collaboration with our suppliers and sub-suppliers.



Our own operations are in scope for all focus areas. The policies that guide us in our daily operations are outlined in our Code of Conduct, which applies to all within the Group. It also forms the foundation for our sustainability strategy and results.

Our employees drive innovation and co-create business success. Their opportunities to develop to their full potential are an important component in this success and in our sustainability efforts. Our employees are the "drivers and doers" behind maintaining high standards of quality in our products, improving procurement practices addressing carbon intensities, eliminating risks and prevalence of child labor and ensuring high standards of business conduct in our value chain.



We are committed to providing attractive alternatives to cigarettes, such as snus and nicotine pouches without tobacco, contributing to improved public health. We use a structured approach to consumer insight, assessing consumers' needs, trends and brand values to influence innovation. Our R&D facilities work to develop new products and to monitor, and improve existing products in line with the GOTHIA TEK® standard (for snus).

¹⁾ This includes the Silkeborg factory in Denmark which was acquired as part of the V2 Tobacco acquisition.

Code of Conduct The Code of Conduct represents the commitment of Swedish Match and of all employees to conduct business activities in a responsible manner and consistent with applicable laws and regulations.

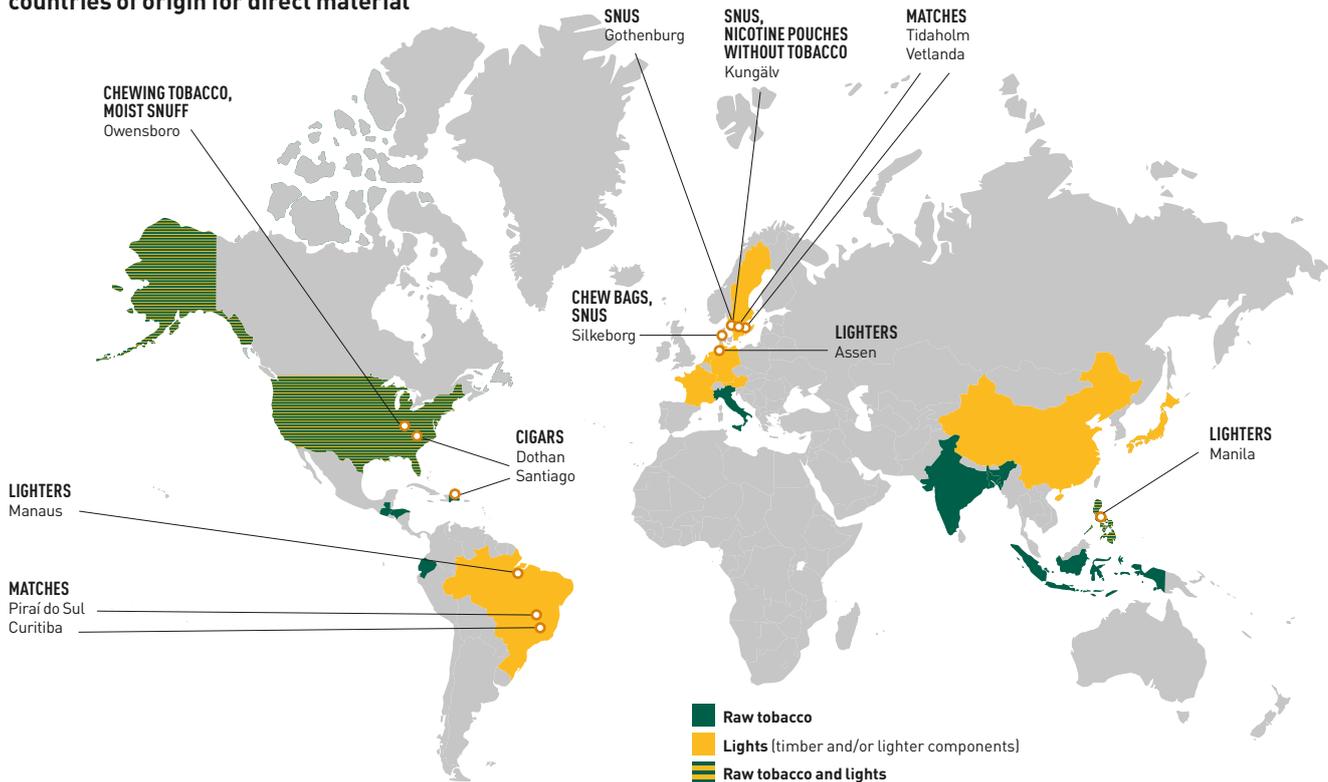
Supplier Code of Conduct The Supplier Code of Conduct, reflects Swedish Match's own Code of Conduct and specifies what the Company expects and requires from its suppliers.

PRODUCTION FACILITIES

Snus is produced in our factories in Kungälv and Gothenburg, Sweden, in accordance with the strict requirements of the GOTHIA TEK® standard. The Kungälv factory also produces nicotine pouches without tobacco. Chew bags are produced in Silkeborg, Denmark. This factory also produces snus. Moist snuff and chewing tobacco are produced in our factory in Owensboro, Kentucky, the US. Cigars are produced in our factories in Dothan, Alabama, the US, and in

Santiago, the Dominican Republic. Matches are manufactured in our factories in Vetlanda (splint) and Tidaholm (matches), Sweden, and Pirai do Sul (splint) and Curitiba (matches), Brazil. Our matches produced in Sweden are manufactured according to our own quality standard, MATCHTEK®. Lighters are manufactured in Assen, the Netherlands, Manila, the Philippines and Manaus, Brazil.

Swedish Match production facilities and major countries of origin for direct material



DIRECT MATERIALS

The main direct materials are raw tobacco, timber, nylon and lighter components, as well as packaging material such as cardboard, plastics and metalized films. Materials are sourced from different parts of the world.

Raw tobacco

Raw tobacco for snus, moist snuff, chewing tobacco, and cigars is sourced through major international suppliers. Swedish Match sources raw tobacco from 20 countries. Ten of these countries (pictured in map above) account for 90 percent of Swedish Match's raw tobacco purchases. Of these, the largest sources come from the Dominican Republic, India, Indonesia, the Philippines and the US.

Timber

Timber for our match production is grown and sourced locally, close to our factories in Sweden and Brazil. Approximately 98 percent of the timber for production of matches in Brazil is grown in Swedish Match's own plantations. The remaining volume is sourced from local suppliers. Our plantations consist

of roughly 6,000 hectares of planted poplar and pine in the south of the Paraná state and in the north of the Santa Catarina state. Our plantations adhere to strict growing requirements beyond those levels set by laws and regulations.

Aspen used for the production of matches in Sweden is sourced from the southern part of Sweden in the vicinity of our splint factory and is primarily sourced through major timber suppliers. Relatively small quantities are also sourced directly from individual forest owners. Swedish Match Industries AB, the entity producing matches in Sweden, is certified according to FSC's standards for Chain of Custody and Controlled Wood.

Nylon and lighter components

Raw material and components for lighters consist of nylon and liquefied petroleum gas, as well as spark wheels, flint stones, springs and top caps, made of various metals, e.g. aluminum, steel and brass. These materials are mainly sourced from suppliers in the US and China.

Core values



PASSION



OWNERSHIP



INNOVATION



QUALITY

Quality standards

- GOTHIA TEK® for snus
- MATCHTEK® for matches produced in Sweden



IMPROVE PUBLIC HEALTH

Our goal is to eliminate cigarette use and tobacco related morbidity and mortality by offering smokers attractive sources of nicotine for recreational use (such as Swedish snus and other nicotine containing products like ZYN).



The scope of this focus area is the entire value chain.

Our commitment

Swedish Match is committed to displacing cigarettes by continuing to develop and to commercialize other alternative sources of nicotine – which will undoubtedly improve public health. Although nicotine has the potential for addiction, the individual and the societal harm is caused by the way nicotine is most commonly delivered. Nicotine, just like caffeine, is in general terms safe to use. Cigarette smoking is the dominant delivery device of nicotine, and it causes death and diseases among users, due to the combustion of tobacco.

In line with our vision of a world without cigarettes, one objective is to increase the awareness of the positive role that snus and nicotine pouches without tobacco can play in improving public health.

Product quality and safety

The objective of Swedish Match's quality standard GOTHIA TEK®, applied to our snus products, is to eliminate or reduce harmful or potentially harmful constituents, naturally found in tobacco (and other common crops), to a level that meets comparable food standards. The standard sets maximum levels in finished products for sixteen unwanted constituents of which only three are regulated by the Swedish Food Act. For a list of constituents and current levels, please visit the Company's website.

During 2017, Swedish Match has stepped up its efforts in relation to its nicotine pouch product ZYN which does not contain tobacco and which takes our commitment to reduction of potentially harmful constituents one step further.

Product attractiveness among adult users of tobacco

At the core of Swedish Match's research and development efforts is the consumer, i.e. adult male and female smokers. Behavioral, sensorial and other needs expressed by smokers are carefully assessed and incorporated in our product development processes. Product appeal is highly important in order to successfully encourage people to switch from cigarettes to other nicotine containing products with favorable risk profiles. These types of products can also go a long way in reducing or potentially eliminating smoking initiation. Consequently, modern nicotine replacement therapies (NRTs) are available in appealing flavors and formats. The same logic is applicable for other harm reduction products such as snus and ZYN; the more appealing a specific product is, the more likely it is to be used by smokers. It is encouraging that the public dialogue that the FDA will initiate on flavors in tobacco products will include the role that flavors play in encouraging cigarette users to switch to harm reduction products.

During the year Swedish Match has continued to launch new products appealing to cigarette consumers. In addition to our expanded efforts on ZYN we have launched a range of all white snus products under the G.4 brand in Norway with the aim of reaching cigarette consumers who have previously rejected snus. Just like for ZYN, the three unwanted constituents regulated for snus under the Swedish Food Act are below detection level in the G.4 products.

In Scandinavia, Swedish Match defines success of product attractiveness by tracking the share decline of daily smokers among total daily tobacco users. In Sweden the share of daily cigarettes smokers among daily tobacco users has dropped dramatically over the years and was 45 percent in 2016¹⁾ (at the release of this report, the official statistics have not been published for 2017). In Norway the share of daily cigarette users dropped to 48 percent in 2017²⁾ (55 percent in 2016). In North America, snus is still a very small product category compared to other tobacco categories and Swedish Match defines success as volume growth of its snus and nicotine containing pouch products.

¹⁾ Source: The Public Health Agency of Sweden (Folkhälsomyndigheten).
²⁾ Source: Statistics Norway (Statistisk Sentralbyrå).



ABOUT ZYN

ZYN represents a further step in Swedish Match's work to reduce unwanted constituents in its products. No traces of the three unwanted constituents regulated by the Swedish food standard for snus can be found in ZYN.

ZYN is an all-white pouch product and Swedish Match's first nicotine product without tobacco.

The distribution of ZYN has been expanded in the US and the product has also become more widely available to Swedish consumers. Production in Sweden has been expanded to meet demand and a significant investment in production capacity for ZYN in Owensboro, Kentucky has been initiated.

Openness and transparency

A majority of smokers are unaware of the wide differences in risk profiles among various tobacco and nicotine containing products. The consequence is that smokers are left only with the option “quit or die”, and far too many of them will die prematurely.

Consumers are seeking and have a right to factual information about product options available to them. That implies that manufacturers, including Swedish Match, must be open and transparent about what we know of our products including scientific findings regarding health impact. We should communicate this to consumers where we are legally allowed to do so. We should also encourage authorities to give factual and unbiased information about the relative harm of different tobacco products and encourage regulators to regulate tobacco products differently based on their risk profile. During 2017, we have continued with our efforts to receive Modified Risk Tobacco Product status for snus in the US. If such status is granted, we would be allowed to make approved claims about the relative risk between snus and cigarettes which would better educate US smokers.

Already in 2001, Swedish Match decided to make its GOTHIA TEK® standard available to its consumers and other relevant stakeholders. Levels of unwanted constituents in finished products are disclosed. Although Swedish Match does not conduct scientific studies on its own, monitoring and compilation of scientific advancements are done continuously and in a systematic manner. A summary of relevant scientific evidence on snus is also available on our Company website.

Swedish Match defines the success of our openness and transparency efforts by annually assessing consumer understanding of relative risk between snus and cigarettes in our core markets. In 2017 our consumer surveys show that in the general population in Norway and Sweden only 66 percent and 62 percent respectively have identified snus as posing a lower risk to health compared to cigarettes. In the US, this number is 11 percent which highlights the scale of public misconception of relative risk.

Protecting vulnerable consumer groups

All products are not for everyone and some consumer groups should not use certain products. This is particularly true for tobacco products which are intended for adult use only. Certain other consumer groups are also deemed vulnerable.

Swedish Match has an *Under 18 No Nicotine* policy which firmly states that all tobacco (and nicotine-containing) products shall only be sold to adults of legal tobacco age in each market, and who are 18 years of age or older. This means that we shall not direct any marketing, advertising or promotion of tobacco or nicotine containing products to persons under the age of 18 or if any higher age restriction applies locally. To prevent the use of tobacco and nicotine by underage persons, we are committed to educating, informing and cooperating on an ongoing basis with retailers, distributors and public officials.

A total abstinence from all forms of nicotine is advised to pregnant women for the entirety of gestation as nicotine may impact pregnancy outcomes including lower birth weights.

Product attractiveness among adult users of tobacco	2017	2016	2015
Share of daily cigarette smokers among daily tobacco users in Sweden ¹⁾ , %	45	45	48
Share of daily cigarette smokers among daily tobacco users in Norway ²⁾ , %	48	55	57
Volume growth of snus and nicotine pouches without tobacco in North America, %	65	24	21

¹⁾ Based on a survey done every other year (latest in 2016).

Source: The Public Health Agency of Sweden (Folkhälsomyndigheten).

²⁾ Source: Statistics Norway (Statistisk Sentralbyrå).

Consumer understanding of relative risk between snus and cigarettes ¹⁾	The US	Sweden	Norway
Snus presents less health risks than cigarettes, %	11	66	62
Snus presents equal or higher health risks than cigarettes, %	67	28	29
Don't know, %	22	6	9

¹⁾ Swedish Match consumer perception study.

Increased understanding of harm reduction

We see an increased understanding in many countries of the role that harm reduction products can play in reducing cigarette consumption around the world. This is particularly evident in the UK and the US.

“Envisioning a world where cigarettes would no longer create or sustain addiction, and where adults who still need or want nicotine could get it from alternative and less harmful sources, needs to be the cornerstone of our efforts – and we believe it's vital that we pursue this common ground.”

Dr. Scott Gottlieb, Commissioner of the US Food and Drug Administration (Announcement of FDA's plan for tobacco and nicotine, July 2017)



ENSURE ETHICAL BUSINESS PRACTICES

At Swedish Match, we will take the necessary steps to ensure that ethical business practices are maintained within our own company and in our relationships with all outside parties.

TARGETS

- All employees are aware of, understand and act according to our Code of Conduct
- All significant suppliers confirm that they share Swedish Match values as stated in our Supplier Code of Conduct



The scope of this focus area is our own operations as well as our relationships with third parties; suppliers, distributors, and retail customers.

Our commitment

Swedish Match is committed to sound business ethics in all our business activities and relations with stakeholders, both within our own operations and with regard to outside parties. We build relationships through honesty and integrity and we respect the laws and regulations in the countries in which we operate. We believe that business relationships, when built on common values, mutual respect and trust, become valuable and dynamic. We perform annual risk assessments in which issues related to ethical business practices are an integral part. We have procedures and processes in place to ensure that the potential risks within this area are properly addressed.

Our Code of Conduct

Our policies on practices regarding employment and labor, ethical business, the environment and workplace are based on the principles of UN Global Compact. Our policies are outlined in our Code of Conduct (the Code) and underpinned by Group principles/procedures and local policies. Our Code represents the commitment of Swedish Match and of all of its employees to conduct business activities in a responsible manner, consistent with applicable laws and regulations. It applies to all employees within the Swedish Match Group, regardless of location or role. Our Code forms the foundation for our sustainability approach and efforts. It is reviewed internally and approved by the Swedish Match Board of Directors on an annual basis.

Our Code covers, among other things, our commitment to and guidance on respect for human rights and internationally proclaimed human rights conventions and guidelines, including non-discrimination and fair treatment, employment terms, freedom of association, the right to collective bargaining, forced or compulsory labor as well as child labor. The Code includes guidance on anti-corruption and anti-bribery practices, as well as gifts, loans and hospitality, and fair competition. It also includes guidance on eco-efficiency and the importance of following a precautionary principle in environmental management, as well as occupational health and safety, competence development, talent management, and supplier due diligence.

Communication and training

We keep track of our employees' awareness of the Code, and whether our employees have reviewed or been informed about the Code, through employee opinion surveys. Mandatory training on the Code is done through e-learning to supplement town hall meetings and similar events. In 2017, 95¹⁾ percent of the workforce has completed the training. Our target is for all employees to have participated in the training on an ongoing basis. Matters addressed in the Code are continuously communicated to employees through, for example, the Company's intranet.



Corruption and bribery

At Swedish Match we have zero tolerance towards corruption and bribery. Swedish Match shall not participate in, or through third parties, endorse any corrupt practices. This is clearly stated in our Code. During 2017, we have developed and implemented a specific training on anti-corruption and anti-bribery. In 2017, 78²⁾ percent of targeted employees have completed the training and activities will continue in 2018.

Fair competition

It is our belief that healthy competition contributes to increased business opportunities, improvement of economic performance and the reduction of cost for products and services. Competition between competitors shall be conducted in a fair manner and in compliance with competition laws. Our legal departments support the heads of the operating units on compliance with the relevant legislation when entering into agreements with our counterparties and performing market activities. All employees within sales and marketing as well as management teams throughout the Group are continuously trained within fair competition through face-to-face training. E-learning programs and tailor-made compliance manuals are also used to educate personnel within this area and will continue to be used targeting employees within e.g. sales and marketing, procurement as well as research and development. During 2017, additional specific training on fair competition has been developed which will be launched to targeted employees during 2018.

Raising concerns and the whistleblower function

To further secure sound business ethics within the Company, we encourage all employees to speak up if they become aware of behavior that is not in line with the Code. When raising a concern, employees can always contact their managers, the heads of the operating units, the HR or legal departments. Swedish Match also has a whistleblower function that provides every employee with the opportunity to report suspicion of non-compliance with the Code to the Chairman of the Audit Committee. A concern can be raised anonymously. All raised concerns are treated seriously and investigated, taking into account the integrity of the reporting person. Suitable actions are taken in cases of misconduct. All raised concerns and actions are reported to the Audit Committee. External auditors are also present at the time of these reports.

During 2017, 23 issues have been raised and evaluated. Some of these issues required actions and new routines put in place, while others were found unsubstantiated and required no further actions.

¹⁾ Relates to individual training for employees with personal e-mail accounts. In addition, group session training has been performed for employees in factories without personal e-mail accounts.
²⁾ Excluding targeted employees in Brazil, that will take the e-learning in Portuguese during 2018.

None of the issues have resulted in the Company bringing criminal charges against any employee.

Our Supplier Code of Conduct

Our Supplier Code of Conduct reflects Swedish Match's Code of Conduct and specifies what we expect and require from our suppliers in terms of employment and labor practices, workplace practices, ethical business practices and environmental management practices. Requirements are based on and are in compliance with international conventions and guidelines¹⁾. The Supplier Code of Conduct forms the basis for our relationship with suppliers and is an integral part of most of our significant business agreements.

¹⁾ The international conventions and guidelines referred to here are the UN Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, the ILO Conventions (No's. 001, 014, 029, 030, 087, 098, 100, 105, 106, 111, 138 and 182), and the OECD Guidelines for Multinational Corporations.

Swedish Match strives to work with suppliers who have a healthy long term financial position and chooses suppliers who also support Swedish Match's requirements regarding ethical business practices and other sustainability aspects. Swedish Match has about 118 significant suppliers of direct material, accounting for about 1.5 billion SEK in annual spend. During 2017, we have assured confirmation that 96 percent of our significant suppliers of direct material share the same values as Swedish Match by signing our Supplier Code of Conduct or through their own Codes of Conduct and mechanisms to monitor e.g. business integrity and human rights impacts in their supply chain.

We are in increasingly frequent and recurring dialogue with our suppliers on our fundamental values. Activities include communication of requirements in the Supplier Code of Conduct, follow-up on adherence through supplier assessments and audits as well as further dialogue on priority issues to assure continued improvement. The overall aim is to increase proactivity in our further dialogue on sustainability. During 2017, we have continued our work to systemize common approaches on supply chain management for purchased direct materials, for more information, see section *Eliminate child labor*.

EXAMPLES OF ACHIEVEMENTS IN 2017

- ☑ Continued training on Code of Conduct targeting all employees
- ☑ E-learning on anti-corruption/anti-bribery for targeted employees
- ☑ Confirmed commitment from 96 percent of significant suppliers of direct material that they share the same values

Ethical business practices	2017	2016
Share of employees that have completed training on our Code of Conduct ¹⁾ , %	95	60
Share of targeted employees that have completed anti-corruption/anti-bribery training ²⁾ , %	78	N/A
Share of significant suppliers of direct material that share the same values as Swedish Match ³⁾ , %	96	N/A

¹⁾ Relates to individual training for employees with personal e-mail accounts. In addition, group session training has been performed for employees in factories without personal e-mail accounts.
²⁾ E-learning/training was launched in 2017. 2017 does not include targeted employees in Brazil, who will take the e-learning during 2018.
³⁾ No comparable figures for 2016 can be provided due to changes in methodology.



***Swedish Match.

CODE OF CONDUCT

96%

OF SIGNIFICANT SUPPLIERS OF DIRECT MATERIAL HAVE CONFIRMED THAT THEY SHARE THE SAME VALUES AS SWEDISH MATCH



SUPPORT EQUAL OPPORTUNITY

Our continuing objective is to be a truly open and inclusive employer. In this environment, with zero tolerance for discrimination, all employees have equal opportunity to achieve their full potential – resulting in a more diverse workplace.

OBJECTIVES

- No employees should feel that they are, or could be, the subject of discrimination at the workplace
- To have at least 40 percent of each gender in senior management
- To increase diversity in cultural background, initially by tracking and raising awareness



The scope of this focus area is our own operations.

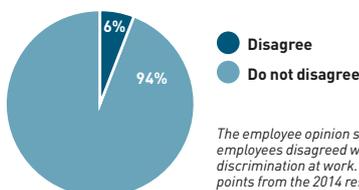
Our commitment

At Swedish Match we put equal opportunities first and foremost in our work toward non-discrimination and diversity. We are dedicated to having an open and inclusive work environment where all our employees shall have equal opportunities to achieve their full potential, regardless of personal status. We work diligently to assure there is zero tolerance for discrimination. As such, we take a proactive approach against structural discrimination and toward increased diversity at all levels within our Company.

Zero tolerance for discrimination

We are committed to non-discrimination in all employment practices, policies, benefits and procedures. Neither employees, nor potential employees, should feel that they are or could be the subject of discrimination at Swedish Match. All violations are taken seriously. Procedures are in place to ensure that swift action is taken to investigate and resolve employee concerns without fear of retaliation. There are several different ways in which an employee may raise a concern, including talking to the employee's manager, or the manager's immediate manager, or to the Company's General Counsel. The employee may also file a complaint anonymously through the whistleblower function, subject to local laws and regulations, which is available on the Company's intranet. Employee well-being and engagement is tracked regularly through a global employee opinion survey, which includes parameters on discrimination.

EMPLOYEES ON DISCRIMINATION



The employee opinion survey in 2016 shows that 6 percent of our employees disagreed with the statement that they were free from discrimination at work. While this is an improvement of 2 percentage points from the 2014 results, this is still not satisfactory, and has resulted in actions taken for improvement during the year. A new survey will be conducted in 2018 to monitor progress.

Decentralized functions for Human Resources

At Swedish Match, our businesses are driven locally as is the Human Resources function (HR). We have a decentralized HR organization due to the fact that regulations and societal context vary between countries. Many initiatives are taken each year to ensure that we create and maintain an inclusive work environment. For example, we provide access to ongoing training, gender equality programs, equal pay analyses and equal employment opportunity efforts. Through the HR Council we are creating common ground within the Group. The primary focus is on exchanging ideas and knowledge and understanding the different starting points. We have increased our focus on diversity with particular focus on both gender and cultural background during the past year.

Cooperating for equal opportunities in a performance based culture

In order to achieve diversity and a truly performance based culture where all employees feel that they have the same possibility to develop to their full potential we have to drive a performance culture where hiring and/or promotion is based on competence, performance and attitude.

We are convinced that a diverse workforce and diverse management groups are positive for our business. Diversity adds value in and of itself, and diversity improves our chances of recruiting the best talent. Based on how our organization looks today, we believe that gender and cultural background are the areas where there may be a higher risk for potential discrimination and/or areas where the Company could benefit most from an increased focus.

We must consciously work with our culture to make sure that it is inclusive and promotes diversity. This includes tangible initiatives, adapted to local circumstances that are recognized to address diversity relating to gender and cultural background. We will follow all applicable laws related to discrimination and the protection of minorities. We must look for and react forcefully to any indications of discrimination, including with regard to salary. We must work to make sure we find the best candidates, and that also means that in external recruitments we shall always seek out diversity in the candidate pool.

Promoting opportunities and gender balance

From 2017, all operating units are required to present status and changes in gender balance within their organizations, on both a total unit level and with regard to management. These status updates are reviewed by the Group Management Team, and provide greater awareness and involvement from both the operating units and from senior management.

We believe that gender diversity at all levels of the organization benefits the Company in many ways. Gender balance targets are set

locally striving for greater balance over time, particularly with regard to more senior levels within the organization. As such, we have a Group goal of having at least 40 percent of each gender in senior management¹⁾.

Promoting opportunities for those in protected groups and those from other cultural backgrounds/country of origin

To encourage greater diversity at the management level and for employees throughout the organization, KPIs have been established for the US and Scandinavia to track and report externally the number and percent of managers and other employees who fall under certain classifications. From 2017, operating units in the US and Scandinavia are required to present status within their organizations, on both a total unit level and with regard to management, pertaining to protected groups and those from other cultural backgrounds or country of origin.

In Sweden, information is being gathered to identify the number of employees who are either born in Sweden, in countries outside of Sweden, or who have two parents born in another country. In the US, ethnic or racial background is a factor which is reviewed.

¹⁾ Defined as participants in the Group Long Term Incentive Plan, composed of 46 individuals in 2017.

Senior management gender representation ¹⁾	2017	2016	2015
Total number of senior management	46	56	55
Share of female members in senior management, %	15	14	13
Share of male members in senior management, %	85	86	87

¹⁾ Defined as participants in the Company's LTI program.

Group management and Board of Directors ¹⁾	2017	2016	2015
Total number of members in Group management	9	8	7
Share of female members in Group management, %	22	25	29
Total number of members in Board of Directors ¹⁾	10	11	10
Share of female members in Board of Directors ¹⁾ , %	40	45	40

¹⁾ Swedish Match AB, including employee representatives.

Employees	2017	2016	2015
Total number of employees ¹⁾²⁾	5,240	5,460	4,850
Share of female employees, %	39	35	N/A
Share of female managers ³⁾ , %	22	22	N/A
Share of female white collar employees, %	32	31	N/A
Share of female blue collar employees, %	45	37	N/A

¹⁾ The figure for total number of employees represents figures at December 31. Due to differences in methodologies, this figure does not correspond to the figure for average number of employees in *Note 6 Personnel*, page 78.

²⁾ Including temporary employees.

³⁾ Managers with direct reports.

INCREASING GENDER EQUALITY

In 2016, a Gender Equality Council, with representation from various parts of Swedish operations was established. The main objective of the council is to monitor the gender equality plan and to have ongoing dialogue as to how we can improve within this area. In 2017, the Gender Equality Council met four times. Actions in 2017 included an updated gender equality plan and methodical awareness raising activities through training and other communications channels, to address for example unconscious bias. Activities also include a gender balanced talent program – with talents representing all parts of the organization. Managers with direct reports are trained on gender equality with the aim to make them aware of the positive potential in emphasizing this area. Our managers inform and discuss the gender equality plan with their employees and actively participate in efforts to achieve its objectives.

CULTURAL DIVERSITY IN SWEDEN

During 2017, Swedish Match has started up a new program to provide work opportunities for refugees that have recently arrived to Sweden. This program consists of an internship program for 4–6 months with an aim to employ after the period has finished. Within the program the intern is given a mentor that both helps with job-related questions as well as with cultural integration in Sweden.

Employees on discrimination ¹⁾	2016	2014
Share of employees who agree that they are free from discrimination at work, %	94	92

¹⁾ The Group employee survey is biannual and no survey was made in 2017.

Employees cultural background 2017	Share of affected group ¹⁾ , %
Sweden	25
The US	17

¹⁾ In Sweden the affected group is defined as employees born outside Sweden or born in Sweden with two parents born outside Sweden. In the US, the affected group is defined as non-caucasian.

Managers cultural background 2017	Share of affected group ¹⁾ , %
Sweden ²⁾	10
The US	10

¹⁾ In Sweden the affected group is defined as managers born outside Sweden or born in Sweden with two parents born outside Sweden. In the US, the affected group is defined as non-caucasian.

²⁾ In Sweden the managers are defined as managers and any other employees with one of the hundred highest salaries in the Swedish Match workforce.



REDUCE GREENHOUSE GASES

Our goal is to reflect the commitments outlined in the Paris Agreement and thereby reduce emissions of greenhouse gases in our value chain.

TARGETS

Reduce emissions of greenhouse gases (GHG) by 75 percent by 2050, with 2017 as the base year, in our value chain (Scopes 1, 2 and 3), resulting in:

- A commitment to reduce GHG emissions by 4 percent per year, every year, until 2050
- A reduction target of 12 percent by 2020, and by 41 percent by 2030



The scope of this focus area is the entire value chain. Emissions of greenhouse gases are distributed across the value chain stages as depicted above.

Our commitment

Our operations are highly dependent on resilient eco systems; we cannot do business without significant input of raw material from nature. The effects of climate change pose a risk to all of us. At Swedish Match, we acknowledge the severity of this issue and we welcome the rising ambitions within the corporate sector at a global scale. We commit to do our part in addressing climate change and to set science-based targets for our business' value chain.

We assess risk related to climate change on a recurring basis for our own operations and for raw material supplies. With a value chain perspective we have good opportunities to contribute in creating a positive impact through collaboration with partners, enhanced assessments and directed mitigation and adaptation actions, in the longer term.

EXAMPLES OF ACHIEVEMENTS IN 2017

- Committed to set science-based targets
- Established long term reduction targets for GHG emissions
- Identified prioritized areas with high reduction potential
- Developed local action plans to meet set targets and initiated implementation

Accounting for greenhouse gas emissions in our value chain¹⁾

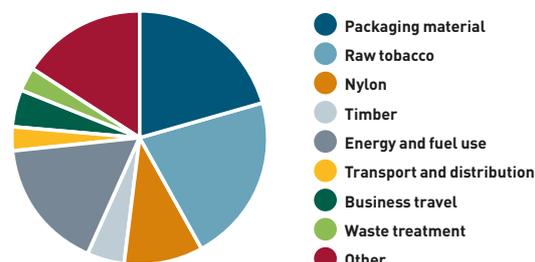
We have assessed and reported greenhouse gas (GHG) emissions for direct emissions (Scope 1), indirect emissions (Scope 2) and part of other indirect emissions not covered in Scope 2 (Scope 3), according to the Greenhouse Gas Protocol²⁾, since 2008. In 2016, we extended our scope for GHG emissions and mapped the full value chain according to the Corporate Value Chain Standard (Scope 3) of the Greenhouse Gas Protocol. In 2017, the accounting was refined and figures for 2016 have subsequently been restated. This is mainly due to the use of more specific emission factors for input materials with large impact on the overall results.

The GHG emissions across the value chain amount to 205,817 tons CO₂-equivalents (CO₂e) for the year 2017. Raw material and supplier stages (lifecycle data for purchased goods and services) account for 64 percent of total emissions. Factory/Warehouse/Office account for 20 percent (Energy and fuel use, waste generated in our own operations as well as business travel³⁾). Transportation between the different stages in the value chain accounts for 4 percent. The customer (chillers for snus in stores) and consumer stages (use of lighters and matches as well as end-of-life treatment of products) account for 7 and 5 percent respectively.

Figure *Main sources of GHG emissions* depicts the distribution of the footprint across main emission sources. Emissions from our own operating units (Scope 1) and emissions from purchased energy used in our own operations (Scope 2) account for 15 percent of the total GHG emissions. The remaining 85 percent include emissions both up-and downstream (Scope 3) in our value chain. The larger part of the Scope 3 emissions stem from the extraction and production of raw materials, e.g. tobacco, timber and nylon, as well as packaging material.

Our GHG accounting includes the full Scope 3 and covers data for all operations controlled by Swedish Match. Generic emission factors have been used to a large extent to calculate emissions⁴⁾. All six GHGs covered by the Kyoto Protocol⁵⁾ are included in the calculations and assumptions and emission factors have followed a conservative approach.

MAIN SOURCES OF GHG EMISSIONS



Energy and fuel use include emissions from Scope 1, 2 and 3. All other emission sources correspond to emissions in Scope 3.

¹⁾ Figures described in this section are based on best available information and are subject to revision. Revised figures will be presented on the Company's website when available.
²⁾ International standard for calculating and reporting climate impact from business activities.
³⁾ Business travel is allocated to Scope 3 in the GHG accounting but has been included in our own operations in the distribution of emissions across our value chain stages.
⁴⁾ Main sources of reference for emission factors include DEFRA, Ecoinvent and IEA.
⁵⁾ IPCC Fourth Assessment Report.

Reducing GHG emissions in a science-based manner

This past year we have developed an emission reduction strategy with science-based targets, based on the revised measurement made in 2016. Science-based targets are in line with the level of decarbonization required to keep the rise in global temperature below 2°C compared to pre-industrial levels¹⁾. In this process we have been guided by the methodology of the Sectoral Decarbonization Approach²⁾ (Other Industry³⁾ pathway) and made use of the associated calculation tool to form a basis for our decision. Our aim is to reduce emissions by 75 percent by 2050, with 2017 as the base year. This would render absolute emission reductions of 4 percent per year, every year, until 2050. Our interim targets are emission reductions of 12 percent by 2020 and of 41 percent by 2030. We have committed to set these targets through the Science Based Targets Initiative (SBTi) and expect validation to be completed in 2018.

Our GHG reduction targets have been set by the Group Management Team and approved by the Swedish Match AB Board of Directors. The responsibility to achieve the targets has been delegated to heads of our divisions. This organization assures that targets are integrated into, and continuously followed-up upon, as part of normal business operations and review processes.

Actions

In the process of setting targets, we have identified a wide range of actions to be taken in pursuit of reducing our value chain emissions. Action plans have been set and responsibilities have been distributed across the Group for main sources of emissions. Initial actions include revisiting procurement practices and replacing materials and energy (resources) with alternatives of lower carbon intensity, using resources more efficiently, engaging with business partners, and, in the longer term, developing products with lower carbon intensity. We will also continuously aim to enhance our

accuracy in the GHG accounting, which will help us to find further potential for reduction and to set the right priorities for our actions.

Accounting accuracy may be enhanced by acquiring more specific information on emissions from our suppliers, and preferably their suppliers (e.g. life cycle data) to increasingly replace generic data, as well as re-evaluating general assumptions made. Revisiting procurement practices and replacing resources with alternatives includes addressing GHG criteria/carbon intensity in purchasing and supply chain management processes, as well as investigating possibilities to increase use of recycled or renewable materials and energy. Using resources more efficiently includes, for example, reducing material usage as well as waste generated at our own operations. Engaging with business partners – suppliers and customers – includes, apart from emission data, encouraging them to pursue a science-based approach to emission reductions.

Greenhouse gas emissions (metric tons CO ₂ e)	2017	2016 ¹⁾
Scope 1	9,917	10,860
Scope 2	20,031	20,061
Scope 3	175,865	181,692
Total emissions	205,814	212,614
Total emissions (per MSEK sales)	12.8	13.2
Emission reductions	3%	N/A

¹⁾ Figures restated following further analysis.

Energy use in our own operations (MWh)	2017	2016 ¹⁾
Direct energy use	90,045	99,970
Indirect energy use	85,495	84,145
Total energy use	175,540	184,115
Total energy use (per MSEK sales)	10.9	11.4

¹⁾ Figures restated following further analysis.



During the past year, Swedish Match has taken a number of positive actions in its efforts to reduce greenhouse gas emissions. One example is the installation of solar panels in the lighter manufacturing facility in the Philippines.

¹⁾ As described by the Intergovernmental Panel on Climate Change (IPCC).

²⁾ Sectoral Decarbonization Approach (SDA): A method for setting corporate emission reduction targets in line with climate science. [2015]. www.sciencebasedtargets.org.

³⁾ The "Other industry" sector includes all industries that cannot be allocated to the industry sectors Iron & steel, Cement, Aluminum, Pulp & paper and Chemicals & petrochemicals, e.g. food, beverage and tobacco processing.



REDUCE WASTE

Our goal is to reduce waste generated at our own production facilities¹⁾.

TARGETS

- Keep total waste, per unit of revenue, generated at our facilities constant
- Reduce hazardous waste by 10 percent, per unit of production, on an annual basis, and by 50 percent by 2025
- Reduce waste to landfill by 10 percent, per unit of production, on an annual basis, and by 50 percent by 2025



The scope of this focus area is our own production facilities.

Our commitment

At Swedish Match we work continuously and systematically to assess risk and reduce the negative impact on the environment. We enhance the effectiveness of our work by a Group-common approach and by sharing best practices.

Managing environmental performance

The majority of our production facilities (10 of 13) are ISO 14001 certified. Non-certified factories are our match factories in Curitiba and Pirai do Sul, Brazil, as well as the Silkeborg factory for smokeless products in Denmark. As part of our environmental management, we continuously assess risk and work to reduce impact on the environment. Environmental impact from our production facilities mainly constitutes the use of energy, materials, chemicals as well as waste and emissions to air and water from different processing steps. All facilities have action plans to continuously improve their environmental performance. This work has been in focus in our production facilities for a long time, it is directed locally and, to a large extent, in close dialogue with local authorities and other stakeholders.

Total waste (metric tons)	2017	2016 ¹⁾
Non-hazardous waste	24,116	23,918
Hazardous waste	689	772
Hazardous waste (per unit of production) ²⁾	0.10	0.11
Total waste	24,805	24,691
Total waste (per MSEK sales)	1.5	1.6
Total waste (per unit of production)²⁾	15.6	15.6

¹⁾ Restated due to refined data collection.

²⁾ Unit of production uses weighted average based on millions of cigars, matches, lighters and cans of snus and thousands of pounds of chewing tobacco.

Reducing waste

During the year, we have completed a material flow analysis for all our facilities²⁾, including input flows to our systems in terms of materials, chemicals and energy as well as output flows in terms of products, packaging material, waste and emissions to air and water flows. The results of this analysis have led us to conclude that emissions to air and water flows from our facilities are low and within limits of requirements set in our environmental permits. Potential issues that could arise in our regular risk assessments are handled as part of our local environmental management.

The results have also led us to conclude that, as for our Group-wide focus on environmental issues other than greenhouse gases, we focus on reducing waste generated in our own operations. We have set Group-common targets for waste at our own facilities as well as treatment of this waste. One target is to keep total waste volumes constant at the same time as, according to projections, production volumes increase for the majority of our product categories. Other targets aim to push waste up the waste hierarchy, away from landfill and towards recovery and recycling, as well as to reduce hazardous waste.

In addition to set targets, we continue to work to reduce the use of packaging material and other materials associated with our products. We look for alternative materials that are partly renewable and/or recycled, and with lower carbon intensity, and we continue to look into possibilities to increase the recycling rate for packaging material at the end of product life.

EXAMPLES OF ACHIEVEMENTS IN 2017

- ✓ Enhanced cooperation and exchange on environmental issues within the Group
- ✓ Completed material flow analysis of our facilities and concluded a common target on waste
- ✓ Established local action plans for waste reduction in our operating units

¹⁾ Initially this focus area also included emissions to air and water flows. Further analysis has determined that these emissions are not material for the Group as a whole, and therefore the focus is now on waste only.

²⁾ Excluding the Silkeborg factory acquired on August 31, 2017.

Treatment method (metric tons)	(%)	2017	2016 ¹⁾
Recovery, including energy recovery	77	18,988	19,248
Landfill	12	2,981	2,458
<i>Landfill (per unit of production)²⁾</i>		7	6
Recycling	8	1,933	1,839
Hazardous waste treatment	3	689	772
Composting	1	215	374

¹⁾ Restated due to refined data collection.

²⁾ Unit of production uses weighted average based on millions of cigars, matches, lighters and cans of snus and thousands of pounds of chewing tobacco.



ELIMINATE CHILD LABOR

Our goal is the elimination of child labor in the Company's value chain.

OBJECTIVE

- Improve our ability to identify, prevent and mitigate child risks and other sustainability risks in our supply chain



The scope of this focus area is mainly upstream in our value chain.

Our commitment

At Swedish Match, we have a special focus on child labor and child risks. Swedish Match does not consent to child labor anywhere in our value chain. We are dependent on raw material from agriculture and forestry for our products. According to the ILO¹⁾, approximately 152 million children are involved in child labor worldwide; 71 percent of these children are found in agriculture. With tobacco being an agricultural product, there is a significant risk of child labor. The issue of child labor is extensive and complex; it requires commitment from us as well as from farmers, suppliers, governments and other manufacturers.

We respect universal human rights and support internationally proclaimed human rights conventions and guidelines. We recognize the role we play in respecting these rights and in making sure that they are upheld and respected for the people impacted by our business, in the areas where we operate and from which we source materials.

Assessing risk related to business integrity and human rights

We assigned external expertise to refine our previous assessment of risk related to business integrity and human rights in our value chain in 2016. This risk assessment forms the basis for our efforts to assess and mitigate specific risk in dialogue with prioritized suppliers. The risk landscape in relation to all suppliers of direct material was reassessed based on manufacturing country or origin of raw material, known category and industry risks²⁾ as well as annual level of spending. A more in-depth social impact assessment was pursued at industry-level, to identify potential and specific human and labor rights risks for a limited number of higher risk categories of direct material.

Out of our 118 significant suppliers of direct material³⁾ a total of 70 suppliers⁴⁾ were classified as high risk based on industry risk or country of origin. The majority of resulting high risk suppliers in this assessment are suppliers of raw tobacco, the remaining part are

suppliers of lighter components or finished products sourced in Asia and Africa. The results confirm our previous focus on suppliers of raw tobacco in our efforts to manage our supply chain more sustainably. The results also confirm our continued focus on child labor and child rights, with child labor and women and child risks rated as the top specific human rights risks, followed by forced labor/debt bondage, hazardous exposure to chemicals and limited access to safe drinking water/sanitation, for the tobacco category.

Supplier due diligence

In the past few years we have worked to implement systems and procedures to monitor adherence to our Supplier Code of Conduct. The monitoring is most advanced and proactive for the raw tobacco purchases for our snus products. It is more compliance-oriented for the raw tobacco for other smokeless products. The major due diligence tools for the raw tobacco supply chain are the Sustainable Tobacco Programme (STP) and associated procedures. During the year, the monitoring for direct material other than raw tobacco, has been enhanced through a group-common procedure. Our end goal within supply chain management is a proactive dialogue on prioritized sustainability issues with relevant significant suppliers of direct material.

Raw tobacco

Swedish Match sources raw tobacco from global suppliers (such as Alliance One, ITC and Universal Leaf) and not directly from tobacco farmers. Farms are generally in tier two with some exceptions (in regions where regulations and/or market structures add more complication). The STP is a due diligence program for sustainability aspects in tobacco growing and manufacturing. It was jointly developed by the tobacco industry in 2015; implementation started in 2016 and the first review cycle will be completed at the end of 2018. Through the STP, we assure adherence to the requirements on, for example, human rights, labor practices, health and safety, as well as environmental issues, set forth in our Supplier Code of Conduct. Our suppliers continuously perform risk assessments in relation to these requirements and establish action plans for continuous improvement, for both for our suppliers and the suppliers of our suppliers. Farmers are subject to regular training on relevant aspects of the program with the purpose of improving conditions on the farm, yields and livelihoods.

Swedish Match has 51 suppliers of raw tobacco. At present, the STP primarily covers raw tobacco for the production of snus, moist snuff and chewing tobacco. It covers 53 percent of our purchased raw tobacco volumes and 47 percent of raw tobacco suppliers.

EXAMPLES OF ACHIEVEMENTS IN 2017

- ✓ Developed and initiated implementation of a group-common procedure to monitor suppliers of direct material other than raw tobacco
- ✓ Developed a plan to include suppliers of raw tobacco for cigars in the Sustainable Tobacco Programme (STP)
- ✓ Drafted a procedure to follow up on STP review results in supplier dialogue

¹⁾ International Labour Organization.

²⁾ Classification of risk has been done based on geographical location and the Corruption Perception Index of Transparency International (CPI), cross-referenced with Maplecroft's Human Rights Index and complemented with specific industry-related risk of human and labor rights violations.

³⁾ A significant supplier of direct material is defined as a supplier with which Swedish Match has an annual spend of above 400,000 USD. Suppliers below spend limit that belong to an industry classified as high risk in relation to business integrity and human rights violations have been included regardless of spend, this includes all suppliers of raw tobacco.

⁴⁾ This includes all suppliers of raw tobacco regardless of country of origin.

ADHERENCE TO THE SUPPLIER CODE OF CONDUCT

			FOLLOW UP ON ADHERENCE TO SUPPLIER CODE OF CONDUCT	DIALOGUE
DIRECT MATERIALS	RAW TOBACCO	Snus	SUSTAINABLE TOBACCO PROGRAMME	PROACTIVE
		Moist snuff & Chewing tobacco		COMPLIANCE ORIENTED
		Cigars	INTERNAL ROUTINES	LESS FORMALIZED
	OTHER DIRECT MATERIALS	All products		

OUR SUPPLIER CODE OF CONDUCT FORMS THE BASIS FOR OUR RELATIONSHIP WITH SUPPLIERS

During 2017, we have developed a plan to also include the sourcing of raw tobacco for cigars into STP. Third-party reviews under the STP are scheduled to take place in 2018.

Assessing and reviewing supplier sustainability performance

Our tobacco suppliers perform annual self-assessments with regard to adherence to the requirements in the STP, for their own part as well as for the farmers from whom they purchase. This forms the basis for dialogue between our Leaf Operations departments and suppliers, as well as for the third party review. Our suppliers’ field technicians train and assist farmers in their daily work to assure compliance with the STP requirements and to optimize crop yield. The field technicians continually monitor farm operations. If matters require immediate attention, actions will be taken to resolve the matter.

On a three-year basis, suppliers are audited and rated by a third-party auditor, AB Sustain. During the past two years 12 reviews have been conducted by AB Sustain. The Leaf Operations department of our Scandinavia Division participated in eight of these reviews to better understand how the STP affects the work and procedures of our suppliers and to build on the review results.

Child labor and child risks

Several criteria relating to child labor and child risks in the tobacco growing and manufacturing supply chain are under assessment and review through the STP. These include, but are not limited to, employment or recruitment of child labor and performance of dangerous or hazardous tasks within the supplier facilities (tier 1); employment of children on supplying farms (generally tier 2), identification of dangerous and hazardous work on supplying farms, exposure to hazards on supplying farms for persons below the age of 18 years old, and farmer’s children helping out with light work on supplying family farms as well as their school attendance along with the identification of prompt action issues and procedures to address them.

The self-assessment results show that, suppliers and farmers are close to a 100 percent compliant with the criteria related to child labor and child risks. In general, there is a large discrepancy between results from supplier self-assessments and third party reviews. This is often related to insufficient evidence available for verification by the third party auditor. For example, 92 percent (11/12) of reviewed suppliers state that they have identified which work would be considered dangerous or hazardous on supplying farms (not to be performed by children below the age of 18 years old). The results of the third party reviews show that this could be verified through evidence for 83 percent of reviewed suppliers (10/12). Bridging the gap and improving the results of the third party reviews versus self-assessments will be in focus in the continued dialogue over the years to come. In 2018, after the completion of a full review cycle, we will have formed a new baseline to continue our efforts from.

Conducting dialogue with suppliers

Our Leaf Operations departments evaluate risk and tailor the continued dialogue on the basis of self-assessments, third party reviews and resulting action plans for improvement. Suppliers and farmers are visited on a yearly basis to strengthen relationships and to pursue a proactive dialogue, including follow-up on action plans. The proactivity and structure in this dialogue varies between the inflows of raw tobacco to Swedish Match. In 2017, we have worked to systemize, and structure documentation on, this dialogue in a consistent way for raw tobacco covered in STP. We have defined a procedure on how to interpret, take action and follow up on STP results. This will be implemented on a larger scale in 2018.

ECLT Foundation

Swedish Match is a member of and represented on the board of the ECLT Foundation – Eliminating Child Labour in Tobacco Growing. This involvement provides us with a platform to continuously keep the issue high up on the agenda, exchange experience and knowledge within this field, and follow projects to tackle the issue on the ground. As an ECLT Foundation member, Swedish Match has signed a Pledge of Commitment (the Pledge). The Pledge is a sector-wide agreement to uphold robust policy on child labor, conduct due diligence and provide for remediation consistent with the United Nations Guiding Principles on Business & Human Rights. This action reinforces our policies and practices and aligns with international best practices established by the International Labor Organization (ILO). For more information on ECLT Foundation and the Pledge, see the ECLT Foundation’s website, www.eclt.org.



PLAY program

In complement to our due diligence we have initiated support to an after-school project in the Philippines during the year. This is a project under Universal Leaf’s Let’s PLAY Program, providing after-school activities in selected communities where children have been observed to participate in harvest activities, giving children an alternative to working and allowing them to thrive in new activities. Along with conducting interesting alternative activities and improving the quality of the children’s health and education, the objective is also to increase awareness of parents, teachers and community leaders on child labor prevention. This project complements other activities, implemented by this supplier, to mitigate the risk of child labor. Swedish Match’s engagement in this project will complement our own efforts to manage our supply chain sustainably. It will also provide us with enhanced understanding of conditions on the ground in areas from which we source raw tobacco.

Direct material other than raw tobacco

The due diligence for direct materials other than raw tobacco builds on our Supplier Code of Conduct. At present this process primarily covers tier one suppliers. The tier one suppliers are continuously screened for compliance and risk in relation to ethical business practices, including child labor issues. In addition to this, we encourage our suppliers to develop their own supplier standards and monitoring procedures.

During 2017, we have developed and started implementation of a group-common procedure, including self-assessment and desktop screening, to assess supplier adherence to requirements set forth in our Supplier Code of Conduct. Swedish Match has 67 significant suppliers of direct material other than raw tobacco. A total of 31 suppliers have been assessed, this includes the 19 suppliers associated with the highest risk in the human rights risk assessment as well as nine suppliers that have not signed our Supplier Code of Conduct (in reference to having their own Code of Conduct). Based on the assessment results, individual action plans for improvement, including for example third party review, will be developed and included in the continued dialogue with the suppliers in 2018.

Supply chain management	2017	2016
Total number of significant suppliers of direct material	118	136¹⁾
Raw tobacco		
Number of raw tobacco suppliers ²⁾	51	61
Share of raw tobacco supplies included in STP, %	53	59
Number of self-assessments performed by raw tobacco suppliers	24	26
Number of third party audits performed on raw tobacco suppliers during the 2016–2018 review cycle	12	8
Number of farms visited by Swedish Match Leaf Operations	123	122
Direct materials other than raw tobacco		
Number of high risk suppliers of direct material other than raw tobacco	19	N/A
Number of assessments performed on suppliers of direct material other than raw tobacco	31	N/A

¹⁾ Restated due to refined data collection.

²⁾ Raw tobacco suppliers are viewed as individual suppliers per country. All raw tobacco suppliers are classified as high risk regardless of country of origin.

We do not accept child labor

Swedish Match respects the rights of the child, including the right to education, the right to rest and play and the right to have the child's basic needs met, in accordance with the UN Convention on the Rights of the Child. We do not accept child labor in our value chain, as defined below.

The minimum age for work should be above the age for finishing compulsory schooling, which is generally 15 years of age, or 14 years according to exceptions for developing countries. If relevant national legislation has set a higher age, this age applies. Work that is likely to be hazardous or harmful to the child's health as well as physical, mental, spiritual, moral or social development or that interferes with the child's education shall not be performed by young workers – children between 15 or 18 years of age.

In the case of family farms, children of farmers between the ages of 13 and 15 years or above the minimum age for light work as defined by the country's law, whichever affords greater protection, can do light work on their own family's farm, as long as it does not threaten their health and safety, or hinder their education or vocational orientation and training.

Integrating cost, sustainability and quality in the purchase of raw tobacco for snus

“ We emphasize honesty and a straight forward dialogue in our relationships with suppliers. We provide clear indications of expected volumes in the upcoming year and clear prerequisites on quality in delivered product. The blender, sustainability expert, and procurer work together in a team to assure progress in sustainable sourcing of raw tobacco.

Being a relatively small (and different) tobacco company on a global scale we may have believed that we have limited resources and leverage upstream in our value chain. But we don't. The fact that we are small allows us to have better control. An integrated approach to procurement alongside the fact that we have put quality in our snus products and the GOTHIA TEK® standard first for nearly two decades, allows us to pursue traceability further up the chain.”

Martin Olsson, Director of Leaf Operations, Scandinavia Division

Auditor's report on the statutory sustainability report

To the general meeting of the shareholders in Swedish Match AB (publ), corporate identity number 556015-0756.

Engagement and responsibility

It is the board of directors who is responsible for the statutory sustainability report for the year 2017-01-01–2017-12-31 on pages 28–45 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 *The auditor's opinion regarding the statutory sustainability report*. This means that our examination of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in

Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

Opinion

A statutory sustainability report has been prepared.

Stockholm, March 15, 2018

Deloitte AB

Peter Ekberg
Authorized Public Accountant

Employer of choice

At Swedish Match, we believe that the success of the Company is largely impacted by the success of our employees. We believe that amazing things happen when great people work for a great company, and when those people are developed, retained, engaged and become true ambassadors for Swedish Match. Everything we do in Human Resources and every decision we make is based on those core beliefs.

Human Resources: How HR works

The majority of the Group's HR activities are handled locally within the Company's operating units. Local units are represented by dedicated HR professionals, who ensure clear communication and coordination of efforts relating to the Company's employees.

The HR organizations support the Company's efforts in managing talent and leadership development, work to provide clear and consistent documentation of activities, and uphold employee practices consistent with the Code of Conduct and local laws and regulations, among other tasks.

Retaining and developing talent: Keeping the right people by meeting their needs

Recruitment is just the first phase of an employee's career at Swedish Match. Keeping that talent and momentum going is challenging but also very rewarding – for the employee, the manager, the department and for Swedish Match. We believe there are key areas requiring continual effort to ensure employee satisfaction and engagement.

Communication

In order to be effective, communication must go two ways – both to and from the employee. Swedish Match believes that it is crucial to the success of the company that employees be allowed and encouraged to share ideas, observations and suggestions.

Additionally, we conduct confidential employee opinion surveys globally through an outside agency that allows our employees the opportunity to rate their job and company satisfaction on a regular basis. Survey results are utilized by the company to follow up on and improve areas of opportunity within the organization.

Feedback and recognition

Clear expectations are set by managers, so that employees understand what they are working toward and what they need to do to meet those expectations. Performance discussions are held and can be initiated at any time by either the manager or the employee. Both managers and employees are expected to actively participate in this process by both giving and receiving feedback. At Swedish Match, recognition is regular, targeted to real successes and used to reinforce and reward positive, desired behaviors.

Support

Employees are given the necessary tools to do their job well. We strive to ensure that workloads are manageable, obstacles to success are removed, supplies and equipment are readily available, and there are enough people to do the work. Support also comes in the form of personal and medical leaves when appropriate, health and retirement plans, employee assistance programs and commitment to work/life balance.

Recruitment of Talent:

GETTING THE RIGHT PEOPLE, IN THE RIGHT PLACES AT THE RIGHT TIME

“ In order to obtain the best talent, Swedish Match focuses on being the best employer. Our goal is to attract and retain a diverse workforce of top talent, in which we all benefit from different perspectives, varying experiences and unique ideas that will drive our business. Swedish Match utilizes many methods to ensure that we are sourcing the best talent, including Employer Branding efforts and are confident that our efforts will continue to ensure a strong competence base to meet or exceed both short and long term challenges.”



Empowerment

Employees of Swedish Match are empowered to make decisions about and take responsibility for how they do their jobs. Employees are encouraged to be involved in the company, make suggestions, be innovative, serve on committees and work teams and attend appropriate meetings and offer input on work processes that affect their job.

Leadership

Swedish Match believes that all employees should believe in the Company's vision and its core values and understand how their daily work and embracing these values contribute to the Company's vision. It is equally important that employees see how leadership exemplifies the core values and Code of Conduct each and every day. Successful leadership continues to be a main focus. We remain committed to growing leaders at all levels of the organization to ensure current and future success.

Professional development

Employees have access to training and development, through on-the-job training, internal training, external seminars and training programs, and tuition reimbursement. During this past year, nearly all senior management vacancies were also filled internally.

Teamwork

Swedish Match believes that employees should be able to work in a supportive

environment. At Swedish Match, we remain focused on issues and encourage employees to be proactive problem solvers. To do this, we recognize that employees must feel that it is acceptable to make mistakes with leadership support. We support team efforts and encourage teamwork. No one at Swedish Match works completely independently – from Boards to Management Teams, Departments, Cross-Functional Teams, Committees, and more. We all have the opportunity to not only “learn from” but also to “teach” each other new things every day.

Compensation and benefits

Swedish Match compensation philosophy and practice is to offer competitive salaries and flexible benefit programs that meet the needs of our most important assets – our employees. The benefit package includes internally equitable and externally competitive salaries, as well as such benefits as paid time off for holidays and vacations, insurances, retirement benefits and support to various other quality of life programs.

Work environment

Swedish Match works diligently to ensure that all employees work in an inspiring work environment, free from any type of harassment or discrimination. The Company is likewise dedicated to providing ergonomically sound workplaces, free from health and safety hazards. Health and safety committees and structures are in place in all operating units and safety training and wellness programs are in place at the

various workplaces. Potential safety and health concerns are of primary importance. Factory audits are conducted both internally and by external third parties. Additionally, Swedish Match supports the International Labour Organization (ILO) Core Conventions regarding labor rights and believes that all employees should be free to form associations and to engage in collective bargaining. According to the Company's Code of Conduct, all employees should be free to join or form (non-violent) assembly or associations.

**Pride**

“ We believe that our core values not only shape our workplace, but also affect the way we interact with one another – both personally and professionally – inside and outside of work. Swedish Match is well known for being a good corporate citizen and is firmly anchored to the communities in which we operate.”