



# SUSTAINABILITY





# CEO comment

## “ At Swedish Match, our approach to sustainability and the development of our own business go hand in hand.”

Our success as a business is highly dependent on making continuing improvements in addressing our six focus areas, outlined in this sustainability section of the annual report. I am pleased to state that a great deal of progress has been made during the past year, providing tangible benefits not only to our own business and financial performance, but also in strengthening our platform with regard to key sustainability issues. We must bear in mind that there is always room for improvement when addressing social, environmental, and governance topics, and we are committed to our responsibilities as an organization. The benefits, both financial and non-financial, can be great. Below I will highlight two focus areas – Improve public health and Reduce greenhouse gases. More information on these and other focus areas can be found on our website and in the following pages.

During 2019, we took big steps toward our vision of a world without cigarettes. In October, the FDA granted Swedish Match an order designating our General snus products sold in the US as Modified Risk Tobacco Product (MRTP). Swedish Match is the first company, and as of the publication of this report, the only company to receive such designation. With this authorization, Swedish Match will be able to help consumers make better informed decisions, taking into account the relative lower risk for identified diseases and other negative health consequences compared to smoking cigarettes. The MRTP decision is a great honor for the Company and a testament to our commitment to product stewardship, to public health and scientific evidence. Swedish Match has also greatly expanded its presence of its nicotine pouch product without tobacco, ZYN, on the US market as well as in certain markets in Europe. While ZYN contains nicotine, an addictive compound, this product contains far lower levels, and, in many cases non-detectable levels of the undesired compounds that you would find in products that contain tobacco.

With regard to our focus on reducing greenhouse gases, our science-based climate targets were approved in the beginning of the year by the Science Based Targets initiative as being aligned with the Paris Climate Agreement. The target aims for 41 percent emissions reductions in our value chain by 2030 and 75 percent by 2050. This crucially aligns our climate work with international efforts by contributing toward the below 2-degree target set by the Paris Agreement, and will guide our business decisions in a sustainable way. Achieving our targets in 2050 will enable us to eliminate the need for almost 150 thousand metric tons of CO<sub>2</sub>



versus our baseline in 2017. I'm pleased that great initiatives are being taken across all divisions in optimizing our processes and working together with suppliers in order to reduce our total greenhouse gas emissions. Significant efforts in 2019 were taken to identify and begin implementing initiatives to reduce the CO<sub>2</sub>-equivalent effects from our packaging materials, especially plastic and aluminum. We have also initiated several projects to further strengthen internal knowledge at the local operating level and began to integrate recently acquired companies in our environmental framework.

During the past year, we continued to reinforce the importance of business ethics in the daily conduct of our business. We strengthen this focus area through various internal e-learning programs (e.g. anti-corruption/anti-bribery and anti-money laundering) as well as through third-party supplier audits to ensure that our business partners share the same values.

During 2019, Swedish Match actively participated in the development of Sustainable Tobacco Program 2.0 (STP 2.0) which will be launched in 2020. The aim of the program is to improve our environmental and social footprints, to contribute to the UN Sustainable Development Goals (UN SDGs) and to enable transparent communication of responsible practices within our supply chain. STP 2.0, a cross industry collaborative effort, will have several touchpoints with our focus areas, not the least of which being work directed toward the elimination of child labor.

Overall, we are pleased with the progress we have made this year in our sustainability efforts and we look forward to continuing the journey towards our targets and vision.

**Lars Dahlgren**  
President and CEO



# Our approach to sustainability

**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. 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, work with our suppliers and customers, and produce our goods.**

Our sustainability strategy is founded on two basic principles – focus and organizational ownership. Through this strategy, we emphasize six areas – greenhouse gases, waste, ethical business practices, equal opportunity, public health and child labor – areas where we believe we have the ability to directly or indirectly influence meaningful outcomes or where adverse developments could have a negative impact on our businesses. Our Code of Conduct forms a foundation for our sustainability approach and efforts throughout the Group. It represents the commitment of Swedish Match and all of our employees to conduct business activities in a responsible manner, demonstrating integrity and respect to our stakeholders and society as a whole.

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 and with third parties. The Company also has procedures in place to ensure adherence to both its own Code of Conduct and expectations set forth in our Supplier Code of Conduct.

In our focus area **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, considering emissions across our full value chain.

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

## OVERALL GOALS AND OBJECTIVES



**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.



**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.

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 source raw tobacco. We are committed to improving our risk analyses and processes to proactively reduce and eventually eliminate child labor and related human rights issues 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 largely autonomous operating units. We take a common group approach in our focus areas, while maintaining a number of sustainability initiatives above and beyond these focus areas with tailored targets and actions at the divisional/operating unit levels. 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. More on our approach may be found on page 56 in the Sustainability Governance section.



# Our contribution to the UN SDGs

Our six sustainability focus areas and our overall sustainability strategy contribute to eight of the UN Sustainable Development Goals (SDGs). These are the areas that are material to the Company and where we believe we can have a positive impact.

Focus areas	Annual report page(s)	How Swedish Match contributes to the SDGs 2030 targets	SDGs 2030
<p><b>IMPROVE PUBLIC HEALTH</b></p> <p>Swedish Match is committed to displacing cigarettes by continuing to develop and to commercialize other alternative sources of nicotine – which will improve public health.</p>	41–43	<p>We work to reduce the premature mortality by offering cigarette smokers attractive and dramatically safer alternative tobacco and nicotine products. (Goal 3.4)</p> <p>We work to ensure that our “Adult only tobacco and nicotine” policy is followed. (Goal 3.A)</p> <p>We inform consumers about the health effects of our products and the addictive nature of nicotine. (Goal 3.A)</p>	
<p><b>ENSURE ETHICAL BUSINESS PRACTICES</b></p> <p>Swedish Match is committed to sound business ethics in all our business activities and relations with stakeholders, both within our own operations and regarding outside parties.</p>	44–45	<p>We do not tolerate any form of corruption or bribery. (Goal 16.5)</p> <p>We work to protect labor rights and ensure safe and secure working environments. (Goal 8.8)</p>	
<p><b>EQUAL OPPORTUNITY</b></p> <p>At Swedish Match we put equal opportunities first and foremost in our work toward non-discrimination and diversity.</p>	46–48	<p>We do not tolerate any kind of discrimination including discrimination based on gender. (Goal 5.1)</p> <p>We work towards having at least 40 percent of each gender in senior management. (Goal 5.5)</p> <p>We are working to ensure equal opportunities and to prevent discrimination. (Goal 10.3)</p>	
<p><b>REDUCE GREENHOUSE GASES</b></p> <p>We commit to do our part in addressing climate change and have set science-based targets for our business’ value chain.</p>	49–50	We take action to combat climate change. (Goal 13.1)	
<p><b>REDUCE WASTE</b></p> <p>At Swedish Match we work continuously and systematically to assess risk and reduce the negative impact on the environment.</p>	51–52	We are working to substantially reduce our waste generation at our own production facilities. (Goal 12.5)	
<p><b>ELIMINATE CHILD LABOUR</b></p> <p>Swedish Match does not consent to child labor anywhere in our value chain.</p>	53–55	<p>We take action to eliminate child labor in all its forms in our value chain. (Goal 8.7)</p> <p>We partner in multi-stakeholder initiatives to work toward common goals. (Goal 17.16)</p>	



# Our Code of Conduct

**Our policies on practices regarding employment and labor, ethical business, the environment and workplace are based on the principles of the UN Global Compact. These policies are outlined in our Code of Conduct and underpinned by Group principles/procedures and local policies.**

Our Code of Conduct represents the commitment of Swedish Match and of all 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 of Conduct 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 of Conduct covers, among other things, our commitment to and guidance on respect for human rights and internationally proclaimed human rights conventions and guidelines<sup>1)</sup>, including non-discrimination and fair treatment, employment terms, freedom of association, the right to collective bargaining and the elimination of forced or compulsory labor as

well as of child labor. The Code of Conduct includes guidance on anti-corruption and anti-bribery practices, as well as gifts, loans and hospitality, responsible marketing practices 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.



To be successful as a company we must act both responsibly and effectively. The Code of Conduct spells out the main principles on how we conduct business.”

**Lars Dahlgren**  
President and CEO

<sup>1)</sup> 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 eight ILO Core Conventions (Nos. 29, 87, 98, 100, 105, 111, 138 and 182), and the OECD Guidelines for Multinational Corporations.

[www.swedishmatch.com](http://www.swedishmatch.com)



More information is available on the Company website [www.swedishmatch.com/Code-of-Conduct](http://www.swedishmatch.com/Code-of-Conduct).

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# Our value chain

Swedish Match manufactures snus, nicotine pouches, moist snuff, chewing tobacco, cigars, matches and lighters at 15 facilities – 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 sourcing 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 and are mostly sourced through outside parties. There are strict requirements in sourcing. The Company owns forestry plantations in Brazil. It does not own any other farms other than for forestry.

With the GOTHIA TEK® quality standard for snus, thorough testing of the tobacco takes place at several stages of the value chain, and selection of raw tobacco. Testing often starts at the farm level. This way of working has influence on how we engage with other raw material supplies.



For the Swedish market, and for distribution to the Norwegian market, Swedish Match has its own distribution company, SMD Logistics. In other parts of Europe, products are distributed primarily through own and third party distributors. Distribution for the US market is primarily via third party distributors. Lights products are distributed through a wide network of partners, worldwide.



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



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



The policies that guide us in our daily operations are outlined in our Code of Conduct, which applies to all employees within the Group. Our employees drive the ideas, innovation and methods to be a more successful company. Their opportunities to develop to their full potential are an important component in this success and in our sustainability efforts.



We are committed to providing attractive alternatives to cigarettes, such as snus and nicotine pouches, contributing to improved public health. Our products are intended for adult consumers only. 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® quality standard for example (for snus).

**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.



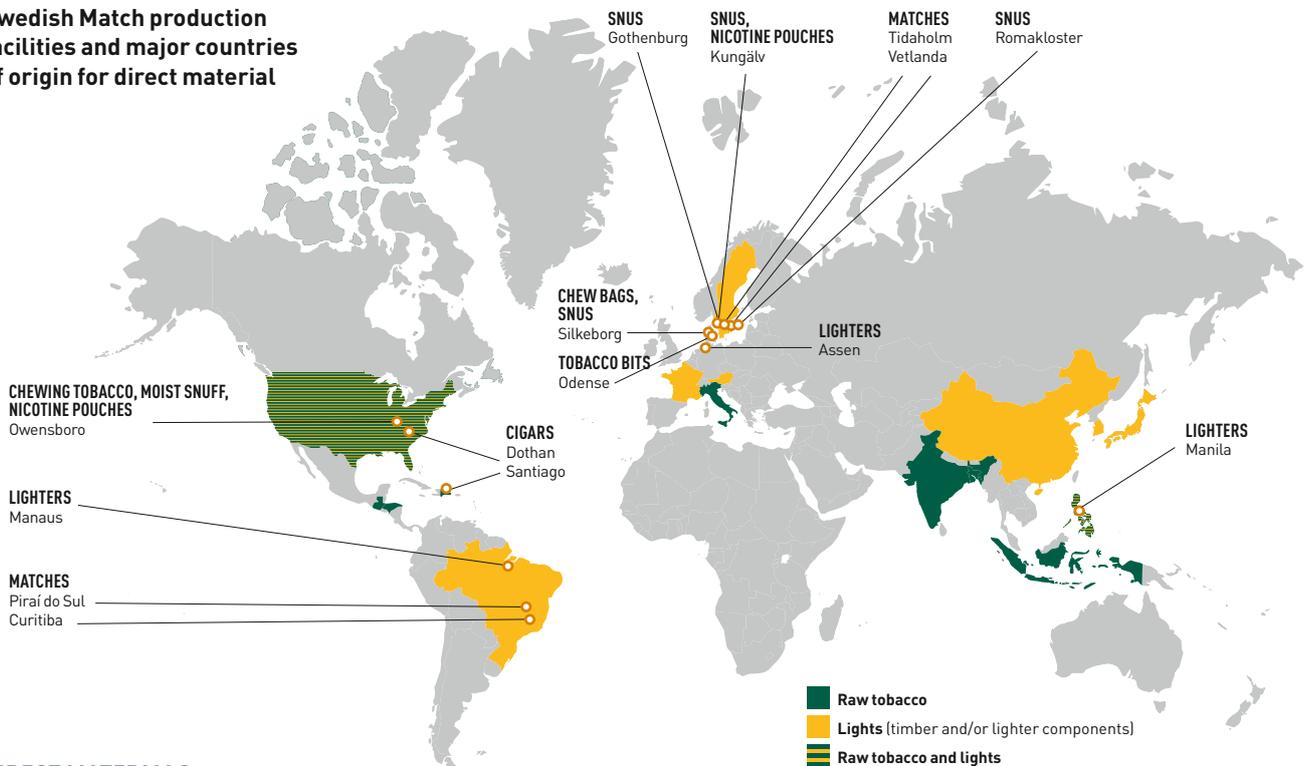
### OUR FACILITIES

Snus is produced in our factories in Kungälv, Gothenburg and Romakloster, Sweden, as well as in Silkeborg, Denmark. Nicotine pouches are produced in Kungälv, Sweden and Owensboro, Kentucky, the US. Chew bags are produced in our factory in Silkeborg, Denmark. Tobacco bits are produced in our factory in Odense, Denmark. Moist snuff and US chewing tobacco are produced in our factory in Owensboro. 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 and fire starters), Sweden, and Pirai do Sul (splint) and Curitiba (matches), Brazil. Lighters are manufactured in our factories in Assen, the Netherlands, Manila, the Philippines and Manaus, Brazil.

### Permits and obligatory reporting

All plants satisfied the requirements of their permits during 2019. The snus and nicotine pouches plants in Gothenburg and Kungälv in Sweden are subject to obligatory reporting in accordance with the Swedish Environmental Code. The plant in Vetlanda, Sweden produces splint and boxes with striking surface that are used in match production. These operations require a permit in accordance with the Environmental Protection Act. The permit is valid indefinitely. Noise levels, storage of timber and solvent emissions are regulated. The plant in Tidaholm, Sweden produces matches and firestarters. These operations require permit according to the Environmental Protection Act. The permit entitles the plant to increase production up to certain levels and specifies limits for wastewater, the dust content in ventilation outflows and noise levels. For plants in other countries where Swedish Match has production operations, the Group has permits in accordance with the legislation in each country.

### 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 are sourced through major international suppliers. Swedish Match does not own tobacco plantations and sources raw tobacco from 21 countries. Eight of these countries (pictured in map above) account for 87 percent of Swedish Match's raw tobacco purchases. The largest sources come from India, Indonesia, and the US.

#### Timber

Timber for our match production is sourced locally, close to our factories in Sweden and Brazil. Approximately 99 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

4,700 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 local 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, and top caps, made of various metals, e.g. aluminum, steel and brass. These materials are mainly sourced from suppliers in China, South Korea, and the US.

### Core values



PASSION



OWNERSHIP



INNOVATION



QUALITY

### Quality standards

- *GOTHIA*TEK® for snus
- *MATCH*TEK® for matches produced in Sweden



## IMPROVE PUBLIC HEALTH

### OUR COMMITMENT

Swedish Match's vision is a world without cigarettes. The company is committed to displacing cigarettes by continuing to develop and commercialize alternative and dramatically safer sources of nicotine – which will 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. Cigarette smoking is the dominant delivery device of nicotine, and it causes death and diseases among users, due to the combustion of tobacco. While youth and certain vulnerable consumer groups should not use nicotine products, nicotine, just like caffeine, is in general terms safe to use.



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

### OUR GOAL

**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).**

- Increased consumer awareness and geographic reach of snus and nicotine pouches.
- Increased consumer awareness of the difference in relative risk between cigarettes and smokefree tobacco and nicotine products.
- Increased understanding among regulators of the role that snus and nicotine pouches can play in improving public health.
- Development and commercialization of new nicotine harm reduction products.

### OUR APPROACH

#### Product strategy

Swedish Match provides a wide range of enjoyable alternatives to cigarettes that are both satisfying and dramatically safer than smoking. Our smokefree portfolio consists of snus, moist snuff, chewing tobacco<sup>1)</sup> as well as innovative products such as nicotine pouches. The vast majority of our R&D efforts and capital expenditures are dedicated to our smokefree business and all the acquisitions made in recent years have been done to strengthen our smokefree portfolio. Currently our smokefree business accounts for more than 80 percent of total Swedish Match volumes of tobacco and nicotine products. Our goal is that this percentage shall continue to grow.

Product appeal is highly important in order to successfully encourage people to switch from cigarettes to other nicotine containing products with favorable risk profiles. At the core of Swedish Match's research and development efforts are quality, reduction of potentially harmful constituents and the needs of the adult tobacco consumer. We have been acknowledged around the world for the work we have done in reducing potentially harmful components in our snus products, and with nicotine pouches we have managed to come below the levels that can be detected for many of them – a longstanding aim of Swedish Match. However, it doesn't matter how much we reduce the risks related to our products if the cigarette consumers don't want to use them. Therefore, behavioral, sensorial and other needs expressed by tobacco users are carefully assessed and incorporated in our product development processes. We know that flavor is an important part of product appeal to cigarette consumers and finding the right flavors for them is important.

#### Product quality and safety

As far back as in year 2000, Swedish Match decided to make its GOTHIA TEK® quality standard available to our consumers and other relevant stakeholders. The objective of the GOTHIA TEK® quality standard, applied to our Swedish 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 three have also become regulated by the Swedish Food Act. For a list of constituents and current levels, please visit the Company's website.

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

Swedish Match conducts limited scientific studies on its own, but monitors and compiles scientific advancements continuously in a systematic manner. A summary of relevant scientific evidence on snus is available on our Company website and this will be complemented by science on nicotine pouches as it becomes available.

<sup>1)</sup> All chewing tobacco products sold by Swedish Match are sold in Europe and in the US and are in general low in tobacco-specific nitrosamines and other relevant harmful and potential harmful constituents, compared with the chewing varieties that are sold in the other parts of the world.



### Consumer accessibility

To encourage consumers to switch to reduced risk alternatives, easy accessibility is essential. Swedish Match is committed to investing in capacity expansion and expanded distribution for our smokefree portfolio, both in our key markets as well as markets where we currently have no or low presence.

### Openness and transparency

Most 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 those who find it difficult to quit 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 about our products, including scientific findings regarding health impacts. 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 legislatures and regulators to regulate tobacco products differently based on their risk profile. During the year, we have actively encouraged regulators in Sweden and a number of other European countries to introduce legislation on nicotine pouches that would limit marketing, cap nicotine levels and perhaps most importantly make the sale of the products to non-adults illegal. In the US, our regulatory focus has been on making sure that our harm reduction products can be sold to adult tobacco users in flavors that are appealing to them.

### 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 and other nicotine containing products which are intended for adult use only. Certain other consumer groups are also deemed vulnerable. 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.

### “Adult only Tobacco and Nicotine” policy

For tobacco and nicotine containing products, Swedish Match has an “Adult only policy” which firmly states that all such products shall only be marketed and sold to adults of legal tobacco age in each market. If the legal tobacco age in any market is below 18, Swedish Match shall still adhere to a policy of 18 years of age or over. This means that we shall not direct any marketing, advertising or promotion of tobacco and other nicotine containing products to persons under the age of 18 or the legal tobacco age if it is higher. We are committed to educating, informing and cooperating with retailers, distributors and public officials to prevent the underage use of tobacco and other nicotine containing products. Where it is legal, we may sell and market our products online and use face to face marketing and sampling, but only to age verified adults.

Source: Swedish Match Code of Conduct

## OUR PROGRESS

### HIGHLIGHTS 2019

- The FDA granted Swedish Match an order designating our *General* snus products sold in the US as a Modified Risk Tobacco Product (MRTP).
- ZYN was launched nationally in the US from April, 2019. Store availability increased throughout the year in the US, Sweden, as well as on a limited scale in a number of other European markets.
- Ongoing engagement in public awareness campaigns with the objective of increasing understanding of the health benefits of snus and ZYN compared to cigarettes.

### Progress update

In October 2019, the FDA granted Swedish Match an order designating our *General* snus products sold in the US as MRTP. In making this judgment, the FDA stated that our application contained scientific evidence sufficient to determine that switching from smoking to *General* snus reduces individual risk. The FDA also determined that granting us an MRTP order for *General* snus benefits the health of the overall population. This is the first time a public health agency – anywhere in the world – has determined that communication of relative risk for a tobacco product can benefit public health.

During the year, Swedish Match has continued to increase the presence and availability of ZYN, which demonstrates our commitment to being at the forefront in offering a modern and safe alternative to smoking. In 2019, Swedish Match extended the ZYN range in Sweden with new products in both the Slim and Mini Dry formats. In addition, we have increased our range of products under the G.4 brand in Norway with the aim of reaching cigarette consumers who have previously rejected more traditional snus.

In the US, Swedish Match expanded the availability of ZYN nicotine pouches nationally from the Western region test. By the end of 2019, ZYN was available in more than 67,000 stores. During the year, Swedish Match has also launched ZYN on a limited scale in a number of European markets outside of Scandinavia, and by the end of the year, the Company was present in stores in markets such as Austria, Croatia, the Czech Republic, Estonia, Germany, Greenland, Slovenia, and the UK. Driven by the efforts mentioned above, the contribution from our smokefree portfolio to the total group has further increased during 2019. Currently our smokefree business accounts for 83 percent of total Swedish Match volumes of tobacco and nicotine products, and 68 percent of corresponding sales.

In 2019, we also continued to invest heavily behind our smokefree products to fuel future growth. Out of our total R&D expenditure, 96 percent was related to smokefree products. These expenditures include the costs related to scientific studies, facility and machinery development and prototypes. We will continue to engage with the scientific community to verify the public health benefits of our products and allocate investments accordingly. Similar as previous years, we have committed more than 90 percent of our capital expenditure to our smokefree portfolio. In 2019, we have further scaled up the investment of ZYN production capacity in the US to support the strong growth.



During the year, we have also seen an increasing consumer appeal of our smokefree products. In Sweden and Norway, Swedish Match defines success of our product attractiveness by tracking the share decline of daily smokers among total daily tobacco users. In Norway, the share of daily cigarette users among total daily tobacco users decreased to 39 percent in 2019<sup>1)</sup> (50 percent in 2018). This means that Norway is now approaching Sweden in terms of converting cigarette consumers to snus usage. In the group of legal age consumers below the age of 25 measured, snus has almost completely replaced cigarette consumption. Only two percent among the men are daily cigarette users and only one percent among the women. In North America, Swedish Match defines success in terms of volume growth of its smokefree products and in 2019, it was 35 percent.

Educating consumers about the difference in health effects between smokefree products and cigarettes continues to be a difficult task. This difference is probably best understood in Sweden and Norway, but there is widespread misunderstanding even in these markets. In the general population in Sweden, 32.9 percent believes that snus is at least as dangerous as cigarettes or answers that they don't know. In Norway the same number is 34.5 percent. Only 20.8 percent of the Swedish population believes that snus is much less dangerous than cigarettes and in Norway this number is only 19.5 percent. Thus continuous efforts to further increase consumer awareness will remain a focus going forward.

<sup>1)</sup> Source: Statistics Norway (Statistisk Sentralbyrå).

Smokefree <sup>1)</sup> , % of total tobacco/nicotine products <sup>2)</sup>	2019	2018	2017
Volumes	83.1	81.5	80.8
Net sales	67.7	65.8	65.8
Capital expenditure including acquisitions	92.1	96.5	93.9
R&D cost	95.7	96.2	94.5

<sup>1)</sup> Smokefree consists of snus, nicotine pouches, moist snuff and chewing tobacco.  
<sup>2)</sup> Group total excluding lights division and SMD Logistics.

Product attractiveness among adult users of tobacco	2019	2018	2017
Share of daily cigarette smokers among daily tobacco users in Sweden <sup>1)</sup> , %	39	39	45
Share of daily cigarette smokers among daily tobacco users in Norway <sup>2)</sup> , %	39	50	48
Volume growth of smokefree products in North America, %	35	8	0

<sup>1)</sup> Based on a survey done every other year (latest in 2018). 2019 and 2017 figures are therefore from prior year.  
 Source: The Public Health Agency of Sweden (Folkhälsomyndigheten).

<sup>2)</sup> Source: Statistics Norway (Statistisk Sentralbyrå).

### Going forward:

- Continued expansion of nicotine pouches both within and outside our existing markets.
- Efforts to increase consumer awareness of snus and nicotine pouches.
- Continued efforts to increase understanding among regulators of the role that snus and nicotine pouches can play in improving public health.
- Development and commercialization of new nicotine harm reduction products.

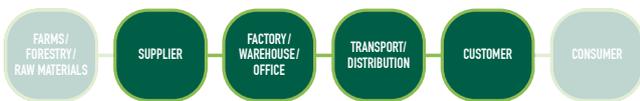




## ENSURE ETHICAL BUSINESS PRACTICES

### 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 when interacting with third parties. We build relationships through honesty and integrity and, at a minimum, comply with all laws and regulations in the countries in which we operate. We believe that business relationships, when built on common values, mutual respect and trust, are important to our long term success.



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

### OUR GOAL

**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.**

- 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.

### OUR APPROACH

#### Our Code of Conduct

Our Code of Conduct represents the commitment of Swedish Match and of all 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.

As part of our activities to help ensure awareness of the Code of Conduct and to find out whether our employees have reviewed or been informed about the Code, we conduct periodic employee surveys. Mandatory training on the Code of Conduct is done through e-learning to supplement town hall meetings and similar events. Employees without e-mail accounts, hourly employees and consultants receive training related to the Code of Conduct in group sessions. All employees are to participate in the training on an ongoing basis. Matters addressed in the Code of Conduct are continuously communicated to employees through, for example, the Company's Intranet.

#### Business Ethics Council and Procurement Council

The Business Ethics Council and Procurement Council target enhancement within general business ethics matters and assurance of adherence to our Supplier Code of Conduct. With the responsibility of the sustainability area decentralized to the Company's divisions, the councils are designated to assist in the coordination of activities and best practice sharing.

#### 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 the Code of Conduct. Raising awareness and knowledge in these areas within our organization is of high importance and targeted employees are required to complete a specific e-learning on the subject. The e-learning is also open to anyone else within the organization.

#### 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 divisions 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.



[www.swedishmatch.com](http://www.swedishmatch.com)

More information is available on the Company website [www.swedishmatch.com/code-of-conduct](http://www.swedishmatch.com/code-of-conduct).



### Anti-money laundering

Money laundering is prohibited by Swedish Match in line with the anti-money laundering laws of various countries. Money laundering is a global problem with potentially very serious consequences. Swedish Match remains vigilant to this concern in our business relations and acts diligently to prevent our products from being used for money laundering. At the end of 2019, Swedish Match launched an e-learning which will be required for targeted employees within the organization.

### Raising concerns and the whistleblower function

To further secure sound business ethics within the organization, we encourage all employees to speak up if they become aware of behavior that is not in line with the Code of Conduct. When raising a concern, employees can always contact their managers, their manager's immediate manager, division heads, or 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 of Conduct to the Chairman of the Audit Committee. A concern can be raised anonymously. All raised concerns are treated seriously and investigated. Appropriate actions are taken in cases of misconduct. All expectations raised and actions are reported to the Audit Committee. External auditors are also present at the time of these reports. During 2019, 20 issues have been raised and evaluated. Some of these issues required actions and that new routines be put in place, while others were found unsubstantiated and required no further actions.

### 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 comply with international conventions and guidelines<sup>1)</sup>. 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.

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.

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 ensure continued improvement. The overall aim is to proactively increase our further dialogue with suppliers on topics pertaining to sustainability.

### [www.swedishmatch.com](http://www.swedishmatch.com)

More information is available on the Company website [www.swedishmatch.com/Supplier-Code-of-Conduct/](http://www.swedishmatch.com/Supplier-Code-of-Conduct/).

<sup>1)</sup> 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.

## OUR PROGRESS

### HIGHLIGHTS 2019

- The European General Data Protection Regulation (GDPR) entered into force in May 2018. Swedish Match is committed to handling personal data responsibly and in accordance with the legislation. During the year, employees and consultants have been trained through workshops and e-learning in order to understand the what GDPR means for Swedish Match and how to comply with the regulation.
- Third party audit of high-risk suppliers of direct material other than raw tobacco, covering a regulatory and legal compliance audit on child labor, employment and labor practices as well as ethical business practices.
- Money laundering is a serious global problem and for Swedish Match it is of utmost importance that our businesses are not used as a means for criminals to use the profits of their crimes. During the year, Swedish Match has launched an e-learning in anti-money laundering for targeted employees to spread knowledge on warning signals and how to act in situations when money laundering is suspected.
- Ethical business practices flourish in a workplace free from harassment and discrimination. During the year a Fair and Friendly project started within Europe Division and Corporate Functions and an anti-harassment/discrimination training was launched for all employees within the US Division.

### Progress update

Ethical business practices	2019	2018	2017
Share of employees that have completed training on our Code of Conduct <sup>1)</sup> , %	97	96	95
Share of targeted employees that have completed fair competition e-learning, %	90	80	N/A
Share of targeted employees that have completed training on anti-money laundering, %	81	N/A	N/A
Share of targeted employees that have completed training on GDPR, %	82	79	N/A
Share of significant suppliers of direct material that share the same values as Swedish Match, %	99	98	96

<sup>1)</sup> Relates to individual training for employees with personal e-mail accounts as well as group session training performed for employees in factories without personal e-mail accounts.

### Going forward:

- Continued focus on awareness of different parts of the Code of Conduct throughout the organization; tailor-made education and trainings.
- Continued third party audits of high-risk suppliers of direct materials, covering regulatory and legal compliance audits on child labor, employment and labor practices as well as ethical business practices and taking actions on potential findings.



## EQUAL OPPORTUNITY

### 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 ensure 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.



The scope of this focus area is our own operations.

### OUR GOAL

**Our continuing goal 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.**

- 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 backgrounds.



### OUR APPROACH

#### Decentralized functions for Human Resources

At Swedish Match, we have a decentralized Human Resources (HR) organization as 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 provide a platform to facilitate a common ground within the Group. The primary focus is on exchanging ideas and knowledge. Employee well-being is tracked through a global employee opinion survey.

#### 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, division heads, or the HR or legal departments. The employee may also file a complaint anonymously through the whistleblower function which is available on the Company's Intranet. The global employee opinion survey includes parameters on discrimination.

#### Diversity

We are convinced that a diverse workforce and diverse management groups are positive for our business. Diversity adds value in and of itself, and a balanced workforce improves our chances of recruiting the best talent. 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 work with our Company culture to make sure that it is inclusive and promotes diversity. This includes tangible initiatives, that are recognized to address diversity relating to gender and cultural background. We follow all applicable laws related to discrimination and the protection of minorities and we look for and react forcefully to any indications of discrimination, including with regard to salary. We also 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.

To encourage greater diversity at the management level and for employees throughout the organization, KPIs have been established for the US and Sweden to track and report externally on the number and percent of managers and other employees who fall under certain classifications. Since 2017, our businesses in both the US and Sweden are required to present status reports 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.

### Gender balance

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 management<sup>1)</sup>.

Since 2017, all divisions as well as corporate functions 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 in the organization.

### Equality Plan

An Equality Plan, including comprehensive efforts on several actions for the Company's operations in Sweden, Norway, Belgium and Switzerland is in place. Actions include various knowledge-enhancing activities, talent development programs, an Equal Opportunity Council, ensuring correct salary processes, and communication on role models. The action plan is based on the seven grounds of discrimination covered by Swedish law (sex, ethnicity, religion or other belief, disability, transgender identity or expression, sexual orientation, and age) and covers five areas: working conditions, salaries and other terms of employment, recruitment and promotion, training and other skills development, as well as work and parenting.

<sup>1)</sup> Defined as participants in the Group Long Term Incentive Plan, composed of 41 individuals in 2019.

### Fair and Friendly

The Fair and Friendly program is Swedish Match's way of working for a fair and friendly work environment within the Europe Division and Corporate functions. The program is based on three cornerstones; fairness, inclusion and business value. The concept of Fair and Friendly encompass that Swedish Match should be and be perceived as a company that promotes diversity, is free from discrimination and where competence, performance, and attitude is what matters in recruiting, retaining and developing employees. The Fair and Friendly Council works with a mission to support the action plan by designing overall activities and ensuring that local activities help to promote a fair, welcoming and competitive Swedish Match. While the council works in an overarching manner to ensure a commonality of approach for this initiative, five local Fair and Friendly Teams, each team with a representative in the Council, work with initiatives to promote inclusion at a local level. Updates on actions and results are regularly published on the Company's intranet.

### Affirmative Action Plan in the US

In the US, all employers are required by law to ensure equal employment terms. In addition to the US legal requirements, Swedish Match completes Affirmative Action Plans annually to analyze and monitor equal opportunity initiatives. An Affirmative Action Plan is a strategic tool to ensure that we as a company are taking proactive steps to attract, hire, train, promote and retain protected groups, ensuring equal pay for equal work and establishing "Good Faith" efforts to move toward fuller representation. In this analysis, we compare our workforce to the relevant labor force, establish goals and timetables for correcting areas of opportunity, develop plans to reduce areas that are not fully utilized with minorities and women and monitor our progress.





## OUR PROGRESS

### HIGHLIGHTS 2019

- Fair and Friendly Council, within the Europe Division and Corporate functions, has developed guidelines for welcomed behaviors. The guidelines clearly show how we work together to create a workplace environment where we respect each other and take advantage of our diverse perspectives.
- Within our US operations, a field sales recruiter has been employed to more actively pursue a more diverse workforce.
- An anti-harassment/discrimination training has been launched (on-site) for all employees in the US, completed by 97 percent of the employees.
- Successful recruitment and retention of females in our facilities in the Dominican Republic, helping to ensure that an equal number of males and females interview for job openings, while also strengthening processes to help ensure salaries are paid by position and promotions determined by performance on the job.
- Continued focus on female applicants within SMD Logistics (Sweden) to help ensure an improved balance between female and male employees.
- An equality compensation in the event of parental leave introduced in the Company's Swedish operations when sharing the parental leave evenly with the child's other custodian (when there is one) to promote equitable parental leave.
- Working opportunities provided for people who have difficulties accessing the regular labor market, at Swedish Match Lighters BV, in Assen (the Netherlands) by working closely with the Social Workplace which employs people with different disabilities. These employees are formally employed by the Social Workplace, but by working on site, they are regarded as any other Swedish Match employee.

### Progress update

Senior management gender representation <sup>1)</sup>	2019	2018	2017
Total number of senior management	41	42	46
Share of female members in senior management, %	17	21	15
Share of male members in senior management, %	83	79	85

<sup>1)</sup> Defined as participants in the Company's Long Term Incentive (LTI) program.

Group management and Board of Directors <sup>1)</sup>	2019	2018	2017
Total number of members in Group management	8	8	9
Share of female members in Group management, %	13	13	22
Total number of members in Board of Directors <sup>1)</sup>	10	10	10
Share of female members in Board of Directors <sup>1)</sup> , %	30	30	40
Total number of members in Board of Directors appointed by the Annual General Meeting	7	7	7
Share of female members in Board of Directors appointed by the Annual General Meeting, %	43	43	43

<sup>1)</sup> Swedish Match AB, including employee representatives.

Employees	2019	2018	2017
Total number of employees <sup>1)2)</sup>	6,712	6,036	5,240
Share of female employees, %	40	41	39
Share of female managers <sup>3)</sup> , %	26	27	22
Share of female white-collar employees, %	34	34	32
Share of female blue-collar employees, %	43	43	45

<sup>1)</sup> 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 91.

<sup>2)</sup> Including temporary employees.

<sup>3)</sup> Managers with direct reports.

Employees on discrimination <sup>1)</sup>	2018	2016	2014
Share of employees who agree that their working group is free from discrimination at work, %	92	94	92

<sup>1)</sup> The Group employee survey is conducted regularly. In 2016 the question was if the employee was free from discrimination at work. In 2018 the question was broadened to refer to the employees working group.

	Share of affected group <sup>1)</sup> , %		
	2019	2018	2017
<b>Cultural background</b>			
<b>Employees</b>			
Sweden	24	26	25
The US	16	17	17
<b>Managers<sup>2)</sup></b>			
Sweden	11	13	12 <sup>3)</sup>
The US	10	10	10

<sup>1)</sup> 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.

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

<sup>3)</sup> Revised in 2018 due to adjusted data from SCB, Statistiska centralbyrån.

### Going forward:

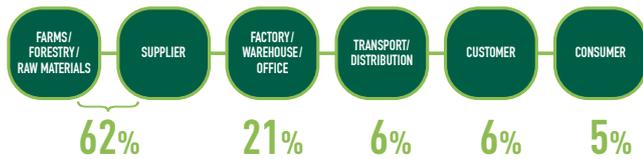
- Efforts and actions on local plans within Fair and Friendly Council and teams will continue.
- Efforts on making the facilities in the factory in the Dominican Republic completely accessible for people with disabilities.



# CO<sub>2</sub> ↓ REDUCE GREENHOUSE GASES

## OUR COMMITMENT

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 supported by science-based targets for our business' value chain.



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

## OUR GOAL

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

**Reduce emissions of greenhouse gases 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.

## OUR APPROACH

### Accounting for GHG emissions in our value chain<sup>11,2)</sup>

We report GHG emissions from our own facilities (Scope 1 direct emissions), emissions from purchased energy used in our own operations (Scope 2 indirect emissions), and emissions in our full value chain according to the Corporate Value Chain Standard (Scope 3) of the Greenhouse Gas Protocol<sup>3)</sup>.

Swedish Match's direct emissions (Scope 1) and indirect emissions (Scope 2) account only for 16 percent of the total GHG emissions. The remaining 84 percent includes emissions both upstream and downstream (Scope 3) in our value chain where we believe we can have the most positive impact. A large 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.

Latest generic emission factors have been used to a large extent to calculate emissions<sup>4)</sup>. All six GHGs covered by the Kyoto Protocol<sup>5)</sup> are included in the calculations, assumptions and emission factors have followed a conservative approach.

### Reducing GHG emissions in a science-based manner

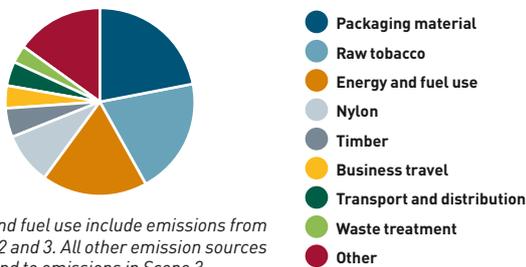
We have developed an emission reduction strategy with science-based targets, based on the revised measurement made in 2016. Science-based targets are in line with the level of decarbonization required to keep the rise in global temperature below 2°C compared to pre-industrial levels<sup>6)</sup>. In this process we have been guided by the methodology of the Sectoral Decarbonization Approach<sup>7)</sup> (Other Industry<sup>8)</sup> pathway) and made use of the associated calculation tool to form a basis for our decision.

Our targets were set through the Science Based Targets Initiative (SBTi) and approved in March 2019.

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 organizational approach ensures that targets are integrated into, and continuously followed-up upon, as part of normal business operations and review processes.

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 sources 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.

## 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.

## CDP

Swedish Match annually reports information on governance, risk and opportunities and climate data to CDP<sup>9)</sup>.

By reporting to CDP, our stakeholders are provided with more information about Swedish Match's initiatives and their results. In 2019, we have improved our overall CDP score to B- from C in 2018. We have also received A- for Supplier Engagement Rating.

<sup>11</sup> 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.  
<sup>2)</sup> Data excludes newly acquired Gotlandssnus facility.  
<sup>3)</sup> International standard for calculating and reporting climate impact from business activities.  
<sup>4)</sup> Main sources of reference for emission factors include DEFRA, Ecoinvent and IEA.  
<sup>5)</sup> IPCC Fourth Assessment Report.  
<sup>6)</sup> As described by the Intergovernmental Panel on Climate Change (IPCC).  
<sup>7)</sup> Sectoral Decarbonization Approach (SDA): A method for setting corporate emission reduction targets in line with climate science (2015). [www.sciencebasedtargets.org](http://www.sciencebasedtargets.org).  
<sup>8)</sup> 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.  
<sup>9)</sup> CDP (formerly Carbon Disclosure Project) is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.



## OUR PROGRESS

### HIGHLIGHTS 2019

Employing a science-based approach and a commitment to the Paris Agreement, Swedish Match has actively pursued programs to reduce GHG emissions.

- Installation of biomass bed and solar panels at the Kungälv factory (Sweden).
- 22 percent reduction of plastic use in can lids used for moist snuff pouch products at the Owensboro factory (US).
- Continued programs to reduce carbon intensity in the US facilities: 85 percent of total cigar consumer packaging converted to lower aluminum content.
- All three factories in the US Division converted to LED lighting.
- "Green" electricity employed at 100 percent at the Assen factory (the Netherlands) since the fourth quarter 2019.
- Introduced recycled nylon in the manufacturing of lighters at the Assen factory.
- Reduced nylon usage for lighter production at the Assen factory.
- Additional solar panels installed at the Manila factory (the Philippines).
- Introduced new match head composition with lower use of chemicals.
- SMD Logistics (Sweden) has implemented eco driving system for internal fleet of vehicles and those of our Road Cargo partner.
- SMD Logistics have installed solar panels in the facility in Sweden.

### Progress update

The GHG emissions across the value chain amount to 197,648 tons CO<sub>2</sub>-equivalents (CO<sub>2</sub>e) for the year 2019, which resulted in 0.8 percent reduction compared to 2018. Scope 1 and Scope 2 emissions have increased slightly driven by a capacity expansion in our Owensboro facility in the US, where currently most of the energy is sourced from natural gas. Total Scope 3 emissions have decreased year over year supported by reduction of packaging materials in the US, as well as lower amount of nylon and timber used by our Lights Division. Our emissions per unit of production have increased primarily driven by declines in match volumes, which has relatively lower carbon intensity compared with the rest of our portfolio. In constant volume mix for our portfolio, our emissions per unit of production was down by close to 2 percent. Measured per unit of net sales in local currency terms, our emission were reduced by more than 8 percent.

We acknowledge that it remains challenging to reach our 2020 target of 12 percent reduction versus the 2017 baseline, recognizing that we have a growing business within for instance nicotine pouches and it takes time to fully implement all the planned initiatives. As our greenhouse gas reduction target is set based on a long-term view, continuous efforts will be made to deliver a year over year improvement. To further reinforce our commitment to the target, it has been decided to include an additional performance metric in the Long Term Incentive plan for 2020 based on our ambitions to reduce GHG emissions in line with the Paris agreement.

We continue to shift towards fossil free energy used in our factories and offices. This year we have seen an increasing share of energy consumption generated by fossil free sources for our Scandinavian and lights operations, achieving 81 and 65 percent respectively of their total energy used. The remaining focus is on our US facilities, where currently only 6 percent of the energy used is fossil free.

In 2019, we have initiated a review of emission factors. Most of the emission factors have been updated according to the latest

publication from UK Department of Environment, Food and Rural Affairs (DEFRA). We have started a pilot project to engage our suppliers more in the data collection process, in order to provide more specific and accurate data throughout the value chain. This year, collaboratively with the vendor, we identified an emission factor for our nicotine source, which is used in most of our nicotine pouch products. On a per can basis, the carbon footprint for nicotine salt usage in our ZYN product is lower compared with that for tobacco usage in our snus product. While the growth of ZYN will increase our total CO<sub>2</sub>e emissions, it has a positive impact on our Improve Public Health focus area.

To further strengthen internal knowledge in the area of GHG accounting and reporting, we have initiated a series of webinars for all divisions, based on the GHG Protocol.

In order to streamline the reporting process and improve visibility and control, we have started implementation of a sustainability reporting system to be used by our divisions and suppliers.

As part of the overall update and continued refinement of our GHG accounting, Swedish Match has engaged in conversations with some of our main tobacco suppliers that are in the forefront of GHG emission reduction, ITC and Universal Leaf. Together we aim to identify the main sources of emissions for Swedish Match tobacco and further develop a more accurate emission accounting.

Greenhouse gas emissions (metric tons CO <sub>2</sub> e) <sup>1)</sup>	2019	2018 <sup>2)</sup>	2017 <sup>2)</sup>
Scope 1	9,564	9,434	10,082
Scope 2	22,029	21,744	20,632
Scope 3	166,055	168,132	167,764
<b>Total emissions</b>	<b>197,648</b>	<b>199,309</b>	<b>198,478</b>
<b>Percent change total emissions</b>	<b>-0.8</b>	<b>0.4</b>	<b>N/A</b>
<b>Total emissions per MSEK sales<sup>3)4)</sup></b>	<b>13.8</b>	<b>15.0</b>	<b>16.4</b>
<b>Percent change per MSEK sales</b>	<b>-8.5</b>	<b>-8.3</b>	<b>N/A</b>
<b>Total emissions per unit of production<sup>5)</sup></b>	<b>73.6</b>	<b>71.1</b>	<b>70.6</b>
<b>Percent change per unit of production</b>	<b>3.5</b>	<b>0.8</b>	<b>N/A</b>

<sup>1)</sup> Data excludes newly acquired Gotlandssnus facility.

<sup>2)</sup> Figures restated due to refined data collection.

<sup>3)</sup> Figures restated following further analysis.

<sup>4)</sup> Net sales from product segments in local currency terms with the 2019 average exchange rates.

<sup>5)</sup> Unit of production uses weighted average based on millions of cigars, matches, lighters and cans of snus and thousands of pounds of chewing tobacco.

Energy use in our own operations (MWh) <sup>1)</sup>	2019	2018 <sup>2)</sup>	2017 <sup>2)</sup>
Direct energy use	87,430	87,240	90,893
Indirect energy use	89,656	89,697	87,680
<b>Total energy use</b>	<b>177,086</b>	<b>176,938</b>	<b>178,573</b>
<b>Total energy use per MSEK sales<sup>3)4)</sup></b>	<b>12.3</b>	<b>13.4</b>	<b>14.8</b>
<b>Total energy use per unit of production<sup>3)</sup></b>	<b>65.9</b>	<b>63.1</b>	<b>63.5</b>
<b>Percent of fossil free energy</b>	<b>44.7</b>	<b>44.5</b>	<b>45.0</b>

<sup>1)</sup> Data excludes newly acquired Gotlandssnus facility.

<sup>2)</sup> Figures restated due to refined data collection.

<sup>3)</sup> Figures restated following further analysis.

<sup>4)</sup> Net sales from product segments in local currency terms with the 2019 average exchange rates.

### Going forward

- Continued shift to fossil free energy sources for heating in our factories and offices.
- Actively seek new opportunities to reduce our carbon footprint in plastic for consumer packaging.
- Continued shift to low emission vehicles across the Group.
- Additional projects have been initiated to review tobacco and wood emission factors in depth, incorporating suppliers' input to further improve our GHG accounting visibility and to better guide our emission reduction efforts. We plan to finalize the review in 2020.
- Global implementation of the sustainability reporting system to be completed ahead of 2020 annual reporting.

<sup>1)</sup> 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.



## REDUCE WASTE

### OUR COMMITMENT

At Swedish Match we work continuously and systematically to assess our internal processes, work efficiently and reduce impacts we have on the environment.



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

### OUR GOAL

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

- Keep total waste, per unit of production, generated at our facilities constant.<sup>1)</sup>
- Reduce hazardous waste by 10 percent, per unit of production, on an annual basis, and by 50 percent by 2025 compared to baseline 2017.
- Reduce waste to landfill by 10 percent, per unit of production, on an annual basis, and by 50 percent by 2025 compared to baseline 2017.

<sup>1)</sup> The goal description was changed to per unit of production versus per unit of sales in 2018.

### OUR APPROACH

#### Reducing waste

The results from our material flow analysis for all our facilities have 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 per unit of production constant, other targets aim to push waste away from landfill and towards recovery and recycling, as well as to reduce hazardous waste per unit of production. This work is driven locally and, to a large extent, in close dialogue with local authorities and other stakeholders.

We continuously work to reduce the use of packaging material and other materials associated with our products. We are also looking for alternative materials that are partly renewable and/or recycled, and with lower carbon intensity. We are exploring the possibilities of increasing the recycling rate for consumer packaging materials at the end of their product life.

#### Managing environmental performance

The majority of our production facilities (9 of 15) are ISO 14001 certified. Non-certified factories include our match factories in Curitiba and Pirai do Sul, Brazil, lighters factory in Manaus, Brazil, and businesses acquired<sup>2)</sup> since 2017.

<sup>2)</sup> Pertains to V2 Tobacco (August 31, 2017), House of Oliver Twist (April 3, 2018), and Gotlandssnus (August 22, 2018).





## OUR PROGRESS

### HIGHLIGHTS 2019

Swedish Match has initiated several new programs to reduce waste, including hazardous waste, in our production facilities.

- Europe Division has started in-line labelling to minimize purchased items and scrap.
- Improved the sorting process for plastic cans at production lines within Europe Division.
- US Division initiated several projects to reduce waste to landfill:
  - Incineration of waste for power production in Dothan facility (US), 50 percent of the project finalized in 2019.
  - Ongoing recycling programs implementation for packaging materials, such as cardboard, cartons as well as metals in US and Dominican Republic facilities. Initiated evaluation of recycling vendors.
  - Reduced chemicals and other hazardous waste in Dothan (US) and Santiago (Dominican Republic) facilities, by changing oil-based machine cleaners to organic cleaners.
- The Lights Division has significantly reduced landfill by composting of boiler ashes in the Pirai do Sul facility (Brazil).

### Progress update

Similar to previous years, approximately 97 percent of our waste comes from non-hazardous waste. Recovery, including energy recovery, remains a main waste treatment method for the Group, covering 73 percent of total waste. Total waste per unit of production is largely unchanged compared to 2018. However, hazardous waste and landfill per unit of production has increased largely driven by factors of temporary nature related to capacity expansion in the Owensboro facility in the US. This year we have also seen an increasing share of our waste being recycled, reaching close to 10 percent of the total. Waste to landfill is largely concentrated in the US and several initiatives are being investigated to explore the recovery possibilities.

Total waste (metric tons) <sup>1)</sup>	2019	2018 <sup>2)</sup>	2017 <sup>2)</sup>
Non-hazardous waste	25,022	26,309	27,187
Hazardous waste	790	588	693
Hazardous waste per unit of production <sup>3) 4)</sup>	0.29	0.21	0.25
<b>Total waste</b>	<b>25,812</b>	<b>26,897</b>	<b>27,880</b>
<b>Total waste per MSEK sales<sup>4) 5)</sup></b>	<b>1.80</b>	<b>2.03</b>	<b>2.31</b>
<b>Total waste per unit of production<sup>3) 4)</sup></b>	<b>9.61</b>	<b>9.60</b>	<b>9.92</b>

<sup>1)</sup> Data excludes Gotlandssnus facility.

<sup>2)</sup> Figures restated due to refined data collection.

<sup>3)</sup> Unit of production uses weighted average based on millions of cigars, matches, lighters and cans of snus/nicotine pouches and thousands of pounds of chewing tobacco.

<sup>4)</sup> Figures restated following further analysis.

<sup>5)</sup> Net sales from product segments in local currency terms with the 2019 average exchange rates.

Treatment method (metric tons) <sup>1)</sup>	2019	2018 <sup>2)</sup>	2017 <sup>2)</sup>
Recovery, including energy recovery	18,829	20,731	22,024
Landfill	3,606	3,295	2,981
Landfill per unit of production <sup>3) 4)</sup>	1.34	1.18	1.06
Recycling	2,276	2,008	1,957
Hazardous waste treatment	781	588	693
Composting	320	274	224

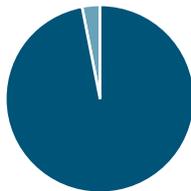
<sup>1)</sup> Data excludes Gotlandssnus facility.

<sup>2)</sup> Figures restated due to refined data collection.

<sup>3)</sup> Unit of production uses weighted average based on millions of cigars, matches, lighters and cans of snus/nicotine pouches and thousands of pounds of chewing tobacco.

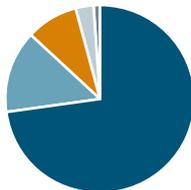
<sup>4)</sup> Figures restated following further analysis.

### WASTE BY TYPE



- Non-hazardous
- Hazardous

### WASTE BY TREATMENT METHOD



- Recovery, incl. energy recovery
- Landfill
- Recycling
- Hazardous waste treatment
- Composting

### Going forward

- New equipment to be installed to support flexible sizes of batches for snus production.
- Pre-study initiated to eliminate a number of colors used in plastic can packaging.
- Continued implementation of recycling program in our facilities.
- Continued trials to minimize landfill from our match production.
- Continuous improvement of procurement and production efficiency.



## ELIMINATE CHILD LABOR

### OUR COMMITMENT

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. Swedish Match does not accept child labor anywhere in our value chain.

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.

Consistent with the UN Convention on the Rights of the Child and the ILO Convention 138 on the minimum age for admission to employment and work, Swedish Match adheres to the principle that 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.



The scope of this focus area is our own production facilities and our suppliers and, for tobacco, the farmers who provide tobacco to suppliers.

### OUR GOAL

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

- Improve our ability to identify, prevent and mitigate child risks and other sustainability risks in our supply chain.
- 100 percent child labor free tobacco.

### OUR APPROACH

#### Assessing risk related to business integrity and human rights<sup>1)</sup>

Swedish Match is dependent on raw material from agriculture and other sources for our products. According to the International Labor Organization, ILO, 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 and suppliers that contract with farmers, other suppliers, governments and other manufacturers.

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 risks<sup>2)</sup> 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 124 significant suppliers of direct material<sup>3)</sup> a total of 73 suppliers<sup>4)</sup> are classified as high risk based on industry and/or country of origin. The majority of resulting high risk suppliers are suppliers of raw tobacco. The remaining part are suppliers of lighter components or finished products primarily sourced from Asia. These results confirm our long-term focus on suppliers of raw tobacco in our efforts to manage our supply chain more sustainably. These 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 for the tobacco category.

#### Supplier due diligence

We have systems and procedures in place 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. For the raw tobacco for other smokeless products, the monitoring is more compliance oriented. The major due diligence tools for the raw tobacco supply chain are the Sustainable Tobacco Program (STP) and associated procedures. Swedish Match sources its raw tobacco primarily from global suppliers (such as Alliance One, ITC and Universal Leaf) who in turn source tobacco from individual farmers. The monitoring for direct material other than raw tobacco, has been enhanced through standard group procedures. We work to maintain a proactive dialogue on prioritized sustainability issues with relevant significant suppliers of direct material.

<sup>1)</sup> Data excludes facilities acquired in 2017 and 2018; V2 Tobacco, House of Oliver Twist, and Gotlandssnus.

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

<sup>3)</sup> 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 this 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.

<sup>4)</sup> Includes all suppliers of raw tobacco regardless of country of origin.



### Sustainable Tobacco Program (STP)

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 and includes annual supplier self-assessments and compliance oriented third-party reviews in a three-year cycle. The first review cycle was completed at the end of 2018. The program covers our tobacco suppliers for the production of snus, moist snuff and US chewing tobacco, 55 percent of our purchased raw tobacco volumes, and includes known sustainability aspects for the agricultural value chain, such as human rights, labor practices, health and safety, as well as environmental issues.

Several criteria relating to child labor and child risks in the tobacco growing and manufacturing supply chain have been 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; employment of children on supplying farms, 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.

During 2019, Swedish Match and six other manufacturers have been engaged in the development of an STP 2.0 Platform with the aim to move towards a focused and impact oriented STP based on relevant assessments. Read more under section Going forward on the next page.

### Sustainability audits on tobacco leaf suppliers for cigars

During 2018, several raw tobacco suppliers for cigars participated in a pilot review conducted by a third-party supplier. The review mapped principles and criteria used within the STP, which are applicable for Swedish Match sustainability focus areas. Dialogue with tobacco suppliers is ongoing and all suppliers audited have been provided a risk reduction plan and corrective action plan based on their results and specifically targeting Swedish Match's six sustainability focus areas. In 2020, we plan to visit all the key leaf suppliers for cigars and continue with the audit and assessment process.

### 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 regularly to strengthen relationships and to pursue a proactive dialogue, including follow-up on action plans. The proactive nature and structure of this dialogue varies depending on vendor location and size. We have worked on systemizing, and structuring documentation of, this dialogue in a consistent way for raw tobacco covered in STP and have defined a procedure on how to interpret, measure, take action and follow up on STP results.

### 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<sup>1)</sup>. 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 the year we have continued implementation of the standard group procedure, developed in 2017. Our significant suppliers base is identified and monitored, and we continuously assess supplier adherence to requirements set forth in our Supplier Code of Conduct. The procedure includes self-assessment and desktop screening. Based on the assessment results, further dialogues have been initiated during the year and suppliers have also been subject to audits conducted by a third party auditor. These audits cover child labor, employment and labor practices and ethical business practices.

<sup>1)</sup> Suppliers referred to here are suppliers who provide products directly to Swedish Match, without middlemen or other manufacturers.

## ECLT Foundation

Swedish Match is a member of and represented on the board of the ECLT Foundation – Eliminating Child Labour in Tobacco Growing. The foundation is committed to pursuing collaborative solutions for children and their families that combat the root causes of child labor in tobacco-growing communities. Founded in 2000, this multi-stakeholder initiative brings several stakeholders from different parts of the tobacco industry together toward a common goal. Since 2011, the ECLT Foundation has helped over 700,000 children, farmers and families in tobacco-growing communities and they are currently implementing projects in Guatemala, Indonesia, Malawi, Mozambique, Tanzania and Uganda.

Our 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. For more information on ECLT Foundation, see the ECLT Foundation's website, [www.eclt.org](http://www.eclt.org).





## OUR PROGRESS

### HIGHLIGHTS 2019

- Active participation in an industry-wide collaboration to move towards a focused and impact-oriented STP 2.0 based on relevant assessments.
- Co-funding of the “Let’s PLAY” After School Program by supporting three schools (449 pupils) in selected communities in the Philippines to mitigate the risk of child labor.
- Third party audit on high risk suppliers of direct material other than raw tobacco, covering regulatory and legal compliance on child labor, employment and labor practices and ethical business practices.
- Continued audit process with our most critical suppliers of raw tobacco for cigars resulting in risk mitigation and corrective action plans in place relative to our focus areas.
- Increased number of farm visits, thus strengthening the relationship with suppliers and farmers of raw tobacco.

### The “Let’s PLAY” After School Program

In complement to our due diligence we have supported an after-school program in the Philippines for two consecutive years. 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 complements our own efforts to manage our supply chain sustainably. Learnings from participating in the program also provide us with enhanced understanding of conditions on the ground in areas from which we source raw tobacco. Assessment of the program has shown an increased community awareness of the tobacco industry fight against child labor as well as no incidences of child labor in the identified areas of the after-school activities. Swedish Match will continue to support the program in 2020.

### Progress update

Supply chain management <sup>1)</sup>	2019	2018	2017
<b>Total number of significant suppliers of direct material</b>	<b>124</b>	<b>130</b>	<b>118</b>
<b>Raw tobacco</b>			
Number of raw tobacco suppliers <sup>2)</sup>	58	57	51
Number of farms visited by Swedish Match Leaf Operations	264 <sup>3)</sup>	119	123
Share of raw tobacco volumes included in STP, %	55	47	53
Number of self-assessments performed by raw tobacco suppliers	N/A <sup>4)</sup>	27	24
Number of third party reviews performed on raw tobacco suppliers during the 2016–2018 review cycle	N/A	29	12
<b>Direct materials other than raw tobacco</b>			
Number of high risk suppliers of direct material other than raw tobacco	15	22 <sup>5)</sup>	19
Number of third party audits performed on high risk suppliers of direct material other than raw tobacco	5	N/A	N/A

<sup>1)</sup> Data excludes facilities acquired in 2017 and 2018; V2 Tobacco, House of Oliver Twist, and Gotlandssnus, with the exception of 2019 data on raw tobacco where V2 Tobacco and Gotlandssnus are included.

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

<sup>3)</sup> Number of visits increased partly due to change in definition and the inclusion of V2 Tobacco and Gotlandssnus acquired in 2017 and 2018.

<sup>4)</sup> The information is not available due to ongoing development of the STP 2.0 Platform.

<sup>5)</sup> Figure restated following further analysis.

### Going forward

- During 2019, Swedish Match has been involved in the development of the STP 2.0 Platform. The aim of STP 2.0 is to improve our environmental and social footprints, to contribute to the UN Sustainable Development Goals (UN SDGs) and to enable transparent communication of responsible practices across our supply chain. The process in STP 2.0 will follow a cycle of continuous improvement in five steps: identify, prioritize, respond, measure, and report.

STP 2.0 builds on the UN Guiding Principles on Business and Human Rights (UNGPs) as well as the five Step Framework for risk-based due diligence along agricultural supply chains set out by the OECD-FAO<sup>1)</sup> Guidance for Responsible Agricultural Supply Chains. A blueprint has been created and agreed upon. The overall goal of this platform is to improve the resilience of the leaf supply chain and to demonstrate positive impact in relation to the UN Sustainable Development Goals in a credible way. The new platform will include a technical system, a guidance integrated into the technical system, as well as a process with set stages following a standardized continuous improvement cycle. It is anticipated that the first self-assessments, using STP 2.0, will begin during 2020.

- Continued support of the “Let’s PLAY” After School Program in the Philippines.
- Continued third party audits of high-risk suppliers of direct material other than tobacco and actions on potential findings.

<sup>1)</sup> OECD, Organisation for Economic Co-operation and Development – FAO, Food and Agriculture Organization of the United Nations.



# Governance

## INTEGRATING SUSTAINABILITY

Sustainability is embedded in our value proposition and is a significant driver of our long term success. It is managed and driven from the highest levels of our organization. The Group Management Team (GMT) has the overall responsibility for Swedish Match's efforts on sustainability. The GMT and other leaders within the Group are committed and involved in the process to define and further develop the strategy. The CFO reports to the Board of Directors on progress. Division heads are responsible for implementing the strategy.

We have worked to ensure that ownership and action in our sustainability work is strongly supported at the local operating level within each division, where efficient and creative ideas and

solutions are best placed and followed through. In addition to the financial and operational reporting, the divisions are now responsible to provide quarterly activity and progress updates regarding the focus areas to the CEO and CFO, providing a positive forum for discussion of opportunities and risks. At the Group level, the sustainability function, headed by the CFO, facilitates implementation of Swedish Match's strategy by establishing systems and frameworks to gather, compile, analyze and report relevant information regarding our sustainability focus areas to interested stakeholders. In 2019, Sustainability planning was for the first time integrated with the financial long range planning process (three year time horizon) at the divisional and Group levels.

## STAKEHOLDER ENGAGEMENT

We engage with our prioritized stakeholders<sup>1)</sup>, 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, 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.

Ongoing discussions are held with our suppliers with regard to codes of conduct as well as topics related to our focus areas. We also are actively engaged with our customers, in helping to address mutual concerns and needs, including but not limited to relevant focus areas.

<sup>1)</sup> Employees, customers/retailers, consumers, suppliers, legislators/regulators and the scientific/health community as well as investors/financial analysts.

## ASSESSING MATERIALITY

Swedish Match most recent materiality analysis was conducted in 2016 and formed the basis for our identified focus areas. The process was directed by the GMT. Key internal stakeholders, representing all divisions, as well as external stakeholders and expertise provided input to the analysis.

In 2016, a list of sustainability topics that could be considered when defining the most material issues to address for Swedish Match were identified from several sources, including the UN Sustainable Development Goals and associated targets, UN Global Compact, GRI G4 framework. Out of 243 topics identified, 49 sustainability issues were considered the most potentially critical for Swedish Match and were assessed for materiality through a survey conducted by the GMT and a handful of key internal stakeholders. Materiality was assessed based on 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. The results of the survey were presented and discussed by the GMT in May 2016 and led up to an agreement to focus the sustainability strategy on six areas – public health, ethical business practices, equal opportunity, greenhouse gases, waste, and child labor.

During 2020, Swedish Match plans to conduct a new materiality analysis and risk assessment to confirm and/or redefine current sustainability focus areas. Based on the reviewed materiality analysis, the Company will ensure that the confirmed/redefined focus areas are still in line with identified material SDGs and report on those going forward.



## 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 2019-01-01 – 2019-12-31 on pages 34–59 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 sustainability report has been prepared.

Stockholm, March 5, 2020

Deloitte AB

Peter Ekberg  
Authorized Public Accountant



# Employer of choice

Swedish Match promotes a culture of openness and trust, and a healthy work environment. Our employees are actively engaged and demonstrate the Company’s core values of passion, ownership, innovation and quality. Every decision the Company makes supports our strong corporate culture helping to drive a successful organization.

### Human Resources: How HR works

The majority of the Group’s HR activities are handled locally within the Group’s divisions. 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 where there are 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 our values and reward positive, desired behaviors.



**Talent recruitment:**

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

We aim 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. In order to obtain the best talent, Swedish Match focuses on being the best employer. Swedish Match utilizes many methods to ensure that we are sourcing the best talent, including Employer Branding efforts and internal talent programs and are confident that our efforts will continue to ensure a strong and dynamic competence base to meet or exceed both short and long term challenges.





*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.

*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*

It is of importance that all Swedish Match employees 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 our core values and our 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. 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 learn from each other and to share experiences that can benefit us all.

*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 asset – 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. We are 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 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 Swedish Match's Code of Conduct, all employees should be free to join or form (non-violent) assembly or associations.

[www.swedishmatch.com](http://www.swedishmatch.com)

More information is available on the Company website [www.swedishmatch.com/career](http://www.swedishmatch.com/career).



**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.