

OUR APPROACH TO SUSTAINABILITY AND SUSTAINABILITY STRATEGY



CEO comment

At Swedish Match, we are committed to making a difference where it matters and to generate long term change for the better.

For us, 2016 has been a year of knowledge-building and transitioning from broad reporting on sustainability issues to a more focused approach. Our emphasis has been on changing the organizational approach and on promoting cooperation and exchange across the Group. We have mapped impact and assessed risk within important sustainability issues across units, with internal input and with help from external expertise. Our work has resulted in the identification of six focus areas where we will devote most of our efforts and communication going forward.

This process has been very valuable to us as a company. Sustainability issues have always been important to us, and with a more focused approach we feel that we can increase impact from our efforts in this field. After having set a clear direction from top down, we are now creating momentum and improved commitment for sustainability throughout our organization.



At Swedish Match we have a vision of 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. By providing products that are recognized as safer alternatives to cigarettes, we can contribute considerably to improved public health. From a total impact perspective, this is where we are likely to have the largest positive impact on society.

During the past year we have taken a new approach to our efforts on sustainability. Our aim has been, and is, to further clarify what is material to our Company as a whole and in the long term. Our sustainability strategy emphasizes six areas – public health, business ethics, equal opportunity, child labor, greenhouse gases, and waste and emissions.

In our focus area **Improve public health**, we intend to displace cigarettes with non-combustible tobacco and nicotine products, such as snus, that have little or no adverse health effects other than nicotine dependence. 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 continuous training and dialogue within the Company.

In our focus area **Support equal opportunity**, we recognize that our people are fundamental to sustaining the success of our busi-

ness. We take actions to foster an environment of respect and enhance our employees' opportunities to achieve their full potential. We strive to create a level playing field and to not tolerate any form of discrimination.

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

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

In our focus area **Reduce waste and emissions**, we work systematically to reduce waste, as well as other emissions to air and emissions to water from our production facilities. We enhance the effectiveness of our work by sharing best practice and processes for target setting across the Group.

Our focus areas form the basis for our common roadmap; this is where we put extra effort and coordinate external reporting of our progress in the coming years. We will continue to work, based on a more decentralized approach, within other sustainability areas relevant to our Company. We will for example continue to maintain high standards for operational health and safety and emphasize the wellbeing of our employees.

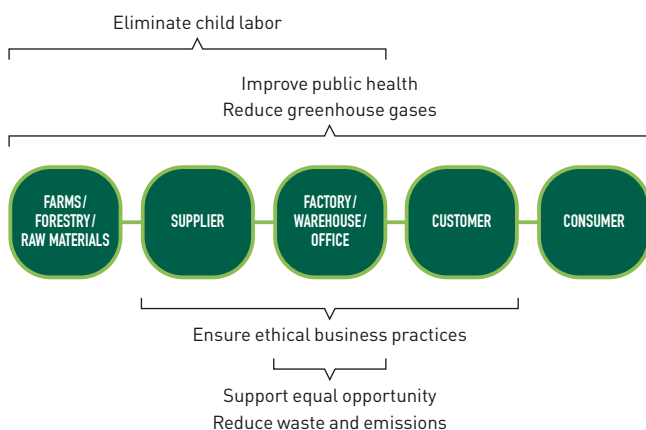
In 2017, we will refine the strategy with specific targets and actions to reach the overall goals as well as with KPIs to track progress. Swedish Match is a global company made up of fairly autonomous local units. Our aim is to establish a common group approach in our focus areas, while at the same time allowing for differences and tailored targets and actions at local operating unit level. In this way, Swedish Match demonstrates a genuine commitment to making a difference where we believe it matters, generating long term change for the better.

Our approach in developing the Company's sustainability strategy may be summarized as follows:

- Our overarching goal in our sustainability efforts is to help making the world a better place and to secure Swedish Match's long term business success.
- Our vision of a world without cigarettes is central to our sustainability strategy and how we contribute to making the world a better place.
- 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.
- Sustainability efforts are integrated throughout the organization with strong commitment and involvement by the Group Management Team and other leaders.
- Sustainability efforts outside the focus areas will continue to be encouraged and are best managed locally.
- While the Company has already achieved a lot in the sustainability area, there is still much work to be done.

We want our work to have relevance for all involved – impacted by and impacting our business. We welcome an active dialogue with our stakeholders regarding our efforts as we proceed in 2017.

VALUE CHAIN AND INITIAL SCOPES OF FOCUS AREAS



OVERALL GOALS



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



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



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



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



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 and emissions. Our goal is to eliminate undesired emissions to air and water flows, as well as waste, from our production facilities.

Scope

Our focus areas extend in different scopes across our value chain. For child labor, the scope is mainly upstream in our value chain. For public health, as well as for greenhouse gases, the scope includes the entire value chain. For business ethics, the scope is our own operations as well as our relationship with third parties; suppliers, distributors, and retail customers. For equal opportunity and waste and emissions, the scope is our own operations.

Reassessing materiality

In 2015, we conducted a stakeholder survey (with customers, consumers, suppliers, employees, the financial and scientific communities, as well as regulators) on sustainability topics based on the GRI framework and industry benchmark.

Results from the survey provided important input to a materiality analysis conducted in 2016. The process, resulting in the above mentioned focus areas, was directed by the Group Management Team. Key internal stakeholders representing a wide range of departments and different operating units were involved and external expertise was consulted.

Relevant sustainability frameworks¹⁾ were consulted in the process to define the issues that are material to Swedish Match. Materiality was assessed on the basis of 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.

We will continue our dialogue with identified stakeholders to confirm and further develop our sustainability efforts.

¹⁾ Frameworks referred to include the UN Sustainable Development Goals, the UN Global Compact, the UN Guiding Principles on Business and Human Rights, and the GRI G4 framework.

Integrating sustainability

Our Group Management Team has the overall responsibility for Swedish Match's efforts on sustainability, and is highly involved in the process to define and set strategy. The CEO reports to the Board of Directors on progress. Heads of operating units are engaged and responsible for implementing the strategy in the operating unit under their responsibility.

To make our sustainability strategy a reality in all parts of our company, we have built an organization across operating units to back up both development and implementation of strategy. In 2016, a sustainability council was formed and provides a platform for

inspiration and exchange of competence and ideas. The council has representatives from all operating units and from the Group Management Team for each focus area. Members of the council are ambassadors at the operating unit level and take part in developing a plan for group common targets, actions and KPIs. They assure execution of actions at the local level and report on progress.

The sustainability function at corporate level reports directly to the CEO and catalyzes continued progress within our sustainability focus areas and actions, facilitates the process towards implemented strategy, and communicates work and results to our important stakeholders.

SUSTAINABLE SUPPLY CHAIN

In our efforts to contribute to a more sustainable world, managing our supply chain sustainably is fundamental to long term success.

In our focus areas public health, business ethics, child labor and greenhouse gases, we have included our suppliers in the scope of our efforts. A proactive engagement with our partners upstream in the value chain is critical to our success. We have processes in place, and under development, to emphasize sustainable supply chain management, in particular for the sourcing of raw tobacco.

Our Supplier Code of Conduct

Our Supplier Code of Conduct is aligned with the Company's Code of Conduct and forms the basis of our relationship with suppliers. It is an integral part in the majority of our significant business agreements.

Swedish Match has about 140 significant suppliers of direct material¹⁾, accounting for about 1.5 billion SEK in annual spend. Raw tobacco accounts for one third of this spend and we have a total of 61 suppliers of raw tobacco, when viewed individually per country.

During 2016, we have assigned external expertise to refine our initial classification of risk in relation to business ethics and human rights. The results of this risk assessment are used to focus and prioritize our activities to the areas where we see the largest risks.

Activities include active dialogue and communication of Swedish Match's requirements, follow-up on adherence, and proactive community investments. Our focus on tobacco growing is confirmed with this risk assessment. For more information, see *Assessing risk of human rights violations*, page 40, in the Eliminate child labor section.

In the past years we have worked to implement routines and systems to follow up on adherence to our Supplier Code of Conduct. The emphasis has been on suppliers of raw tobacco for smokeless products where we have implemented and actively participated in the development of a sector-common system, the Sustainable Tobacco Programme (STP). With this system we assure continuous improvement on the wide range of sustainability issues with our tier one and tier two suppliers²⁾, including third-party review.

The due diligence process for other direct materials involves compliance and risk screening, as well as supplier assessments performed by purchasers in conjunction with supplier visits. This process is tailored to local conditions and is to date less formalized than the one for raw tobacco.

During 2016, our Procurement Network, made up of representatives from all operating units, have framed a common approach towards risk assessment, including sustainability aspects, and assurance of adherence to our Supplier Code of Conduct. In 2017, we will

ADHERENCE TO THE SUPPLIER CODE OF CONDUCT

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

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

¹⁾ A significant supplier of direct material is defined as a supplier with which Swedish Match has an annual spend of above 400,000 USD (~3.5 MSEK). Suppliers below spend limit that belong to an industry classified as high risk in relation to human rights violations have been included regardless of spend. This includes all tobacco suppliers which are also viewed as individual suppliers per country.

²⁾ Tier one suppliers refer to the Company's own suppliers and tier two suppliers refer to the suppliers of the Company's suppliers.

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



We work with honest and straight-forward relationships with our suppliers, providing clear indications of expected volumes for next year's production and consumption and clear pre-requisites on expected quality in delivered product. The blender, procurer and sustainability expert work together in a team to assure progress in sustainable sourcing of raw tobacco. We have an integrated approach to procurement and have put quality in our snus products and the GOTHIA TEK® standard first for nearly two decades. This allows us to pursue traceability further up the chain. ”

Martin Olsson, Director of Leaf Operations, Scandinavia Division

At Swedish Match we aim to pursue an integrated approach in the procurement of raw tobacco. We are piloting this approach with our snus products, for which the Leaf Operations of Scandinavia Division is responsible for balancing all parameters considered in the procurement process – product quality and specifications, sales prognosis, social and environmental issues as well as price.

continue to develop this approach in more detail. We will systemize our common approach to assure compliance, as well as compile and track identified KPIs to communicate our progress towards more sustainable supply chain management.

Sourcing raw tobacco more sustainably

Swedish Match sources raw tobacco from global suppliers (such as Alliance One, ITC and Universal Leaf) and not directly from tobacco farmers. Farms are generally in tier two with some exceptions in areas where regulations and/or market structures add more complication. The STP is our major tool to assure compliance with the requirements set forth in the Supplier Code of Conduct. The STP is a system for self-assurance and third-party review of sustainability aspects in tobacco growing and manufacturing. Building on the previous SRTP, among other programs, this new STP was developed in 2015 and has been implemented during 2016.

Through the STP, we assure adherence to our requirements on, for example, human rights, labor practices, health and safety, as well as environmental issues. Our suppliers continuously perform risk assessments in relation to these requirements and establish action plans for continuous improvement, for both them and for their suppliers. Farmers are subject to regular training on all aspects of the program with the purpose of improving conditions on the farm, yields and livelihoods. At present, the program primarily covers raw tobacco for the production of snus, moist snuff and chewing tobacco. It covers 59 percent of our purchased raw tobacco volumes and 67 percent of our raw tobacco suppliers.

Our target is to have raw tobacco for our cigars completely included in the STP by 2020. This process was initiated in 2016 and we expect the first reviews to take place in 2017. With all of our raw tobacco purchases in the STP, we will have a solid basis for assuring more sustainable sourcing.

Performing due diligence

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

On a three-year basis, suppliers are audited and rated by a third-party auditor, AB Sustain. In 2016, eight reviews were conducted by AB Sustain on suppliers at local level, in accordance with the STP. The Leaf Operations department of our Scandinavia Division participated in four of these reviews to better understand how the STP affects the work and procedures of our suppliers and to build on the review results.

Conducting dialogue with suppliers

Our Leaf Operations departments evaluate risk and tailor the continued dialogue on the basis of self-assessments, third party reviews and resulting action plans for improvement. Suppliers and farmers are visited on a yearly basis to strengthen the relationships and pursue a proactive dialogue, including follow-up on action plans.

The structure of this dialogue varies between the inflows of raw tobacco to Swedish Match. During 2017, we will continue our work to systemize the dialogue, and towards a more coherent way of working for all of our tobacco purchases. We will develop clearer and more consistent guidelines on how to interpret and take actions on the STP results. We will also collect more specific information to allow for tracking of KPIs and communication on progress towards a more sustainable sourcing of raw tobacco.

Knowing our value chain

With the implementation of the STP, we are able to build more in-depth knowledge on sustainability issues in our raw tobacco value chain. Assessments and review are now done based on seed variety which implies more specific data on the farms from which Swedish Match purchases its raw tobacco. During 2016, we have worked to increase our in-depth knowledge concerning the people and conditions in our value chain. We will continue this work in 2017. For the raw tobacco covered in the STP, the farm base is potentially 20,000 farms. Our suppliers source directly from the majority of these farms. The typical farm is a family farm of a couple of hectares.

The requirements in the STP are comprehensive and imply work and evidence from suppliers. We will be in a transition period for an additional two years, whilst our suppliers adapt to the requirements of the new program. In three years, after completion of a full review cycle, we will have formed a new baseline to work from. This will include detailed profiles for the farms from which we source raw tobacco.



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 tobacco derived nicotine containing products like ZYN).

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

Our commitment

Nicotine, just like caffeine, is in general terms safe to use. 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. Swedish Match is committed to displacing cigarettes by continuing to develop and commercialize other alternative and clean sources of nicotine – which will undoubtedly improve public health.

Product quality and safety

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

During 2016, Swedish Match incorporated three additional constituents into the GOTHIA TEK® standard as well as further strengthened the limits for two others. For a complete list of constituents and current levels, please refer to the Company's website.

Product attractiveness among adult users of tobacco

Product appeal is highly important in order to successfully encourage people to switch from cigarettes to other nicotine containing products with favorable risk profiles. Consequently, modern nicotine replacement therapies (NRTs) are available in appealing flavors and formats. The same logic can be applied for snus; the more appealing a specific snus product is, the more likely it is to be used by a former smoker. Swedish Match's snus and the effectiveness of using snus as an alternative to the traditional cigarette have had an unprecedented impact on the tobacco consumption pattern in Scandinavia and in turn on tobacco related morbidity and mortality. Cigarettes smokers are, however, not a homogenous group and there is no such thing as "one product fits all".

At the core of Swedish Match's research and development efforts is the consumer, i.e. adult male and female smokers. Behavioral, sensorial and other needs expressed by smokers are carefully assessed and incorporated in our product development processes. ZYN, a tobacco derived nicotine containing product, is Swedish Match's latest innovation based on insights about smokers. During the year we have expanded our distribution of ZYN in the US and we have launched the product in our snus stores in Sweden.

In Scandinavia, Swedish Match defines success of product attractiveness by measuring share decline of daily smokers among total daily tobacco users. In Sweden the share of daily cigarettes smokers among daily tobacco users was down to 45 percent in 2016¹⁾ (48 percent in 2015). In Norway the share of daily cigarette users was down to 55 percent in 2016²⁾ (57 percent in 2015). In North America, snus is still a very small product category compared to other tobacco categories and Swedish Match defines success as volume growth of its snus and nicotine pouch sales.

Openness and transparency

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

Consumers are seeking and have a right to factual information about product options available to them. That implies that manufacturers, including Swedish Match, must be open and transparent about what we know of our products including scientific findings regarding health impact. We should communicate this to consumers where we are legally allowed to do so. We should also encourage authorities to give factual and unbiased information about the relative harm of different tobacco products and encourage regulators to regulate tobacco products differently based on their risk profile.

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

Swedish Match defines the success of our openness and transparency efforts by annually assessing consumer understanding of relative risk between snus and cigarettes in our core markets. In 2017 Swedish Match will implement a uniform method of tracking awareness of relative risk and will report on these numbers.

Protecting vulnerable consumer groups

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

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

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

Product attractiveness among adult users of tobacco	2016	2015	2014
Share of daily cigarette smokers among daily tobacco users in Sweden, %	45	48	48
Share of daily cigarette smokers among daily tobacco users in Norway, %	55	57	59
Volume growth of snus and nicotine pouches in North America, %	24	21	0

¹⁾ Source: The Public Health Agency of Sweden (Folkhälsomyndigheten).

²⁾ Source: Statistics Norway (Statistisk Sentralbyrå).



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.

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

Our commitment

Swedish Match is committed to sound business ethics in all our business activities and relations with stakeholders, both within our own operations and with regard to outside parties. We build relationships through honesty and integrity and we respect the laws and regulations in the countries in which we operate. We believe that business relationships, when built on common values, mutual respect and trust, become valuable and dynamic.

Our Code of Conduct

Our Code of Conduct (the Code) represents the commitment of Swedish Match and of all 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. The Code is reviewed internally and approved by the Swedish Match Board of Directors annually.

Through employee opinion surveys, we keep track of our employees' awareness of the Code and whether the employees have reviewed or been informed about the Code. Mandatory training on the Code has taken place through e-learning to supplement town hall meetings and similar events. During 2016, 60 percent of the workforce completed this e-learning. The target is 100 percent participation and we will follow up on this during 2017. Ongoing communication on matters referred to in the Code is communicated to employees primarily through the Company's intranet and also in conjunction with performance reviews and development discussions.

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. 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 business ethics and other sustainability aspects. Our end goal is to have confirmation from all our significant suppliers that we share the same values and efforts within this field. We believe that we share the same values as the majority of our suppliers today already and we will continue our efforts to develop a more structured approach to follow up on commitment to our Supplier Code of Conduct. For more information on our Supplier Code of Conduct and our efforts within this field, see the section *Sustainable supply chain*, page 34.

Raising concerns and the whistleblower function

To further secure sound business ethics within the Company, we encourage all employees to speak up if they become aware of behavior that is not in line with the Code. When raising a concern, employees can always contact their managers, the heads of the operating units, the HR or legal departments. Swedish Match also has a whistleblower function that provides every employee with the opportunity to report suspicion of non-compliance with the Code to the Chairman of the Audit Committee. A concern can be raised anonymously. All raised concerns are treated seriously and investigated, taking into account the integrity of the reporting person. Suitable actions are taken in cases of misconduct. All raised concerns and actions are reported to the Audit Committee. External auditors are also present at the time of these reports. During 2016, twelve issues have been raised and evaluated. Some of these issues required actions and new routines put in place, while others were found unsubstantiated and required no further actions. None of the issues have resulted in the Company bringing criminal charges against any employees.

Corruption and bribery

At Swedish Match we have zero tolerance towards corruption and bribery. The Code states that Swedish Match shall not participate in, or through third parties, endorse any corrupt practices. The Code also provides clear guidelines on acceptable and unacceptable behavior. In addition to our current efforts with educating our personnel within this field, we will launch a tailor-made e-learning program on corruption and bribery throughout the organization, targeting all employees who operate in areas and countries where there is generally a higher risk of occurrence.

Fair competition

Swedish Match's belief is that healthy competition contributes to increased business opportunities, improvement of economic performance and the reduction of cost for products and services. Competition between competitors shall be conducted in a fair manner and in compliance with competition laws. Our legal departments support the heads of the operating units on compliance with the relevant legislation when entering into agreements with counterparties and performing market activities. All employees within sales and marketing as well as management teams throughout the organization are continuously educated within this area 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 and research and development.

Business ethics	2016
Share of significant suppliers that have accepted our Supplier Code of Conduct, %	To be reported
Share of employees that have completed e-learning on our Code of Conduct, %	60



SUPPORT EQUAL OPPORTUNITY

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

The scope of this focus area is our own operations.

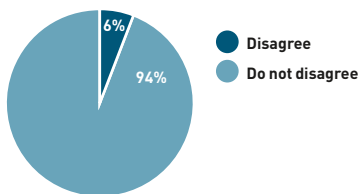
Our commitment

Our best asset for innovation is a workforce of employees with equal opportunities to achieve their full potential. 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 such as race, nationality, ethnic or social origin, age, religion, political orientation, gender, sexual orientation or identity, family or marital status, pregnancy, disability or other status. We work diligently to assure there is zero tolerance for discrimination. As such, we take a proactive approach against structural discrimination and toward increased diversity at all levels within our Company.

Zero tolerance for discrimination

We are committed to non-discrimination in all employment practices, policies, benefits and procedures. All violations are taken seriously. Procedures are in place to ensure that swift action is taken to investigate and resolve employee concerns without fear of retaliation. There are several different ways in which an employee may raise a concern, including talking to the employee's manager, or the manager's immediate manager, or further up to the Company's General Counsel. The employee may also file a complaint anonymously through the whistleblower function, which is available on the Company's intranet. Employee well-being and engagement is tracked regularly through a global employee opinion survey. The survey includes parameters on discrimination.

EMPLOYEES ON DISCRIMINATION



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

Decentralized functions for Human Resources

At Swedish Match, we have a decentralized Human Resources (HR) organization due to the fact that regulations and societal context vary between countries. Many initiatives are taken each year to ensure that we create and maintain an inclusive work environment, through ongoing training, gender equality programs, equal pay analyses, equal employment opportunity efforts, and unyielding commitment to non-discrimination.

Through the HR Council we are creating common ground within the Group. The primary focus has been to exchange ideas and knowledge and to better understand the different starting points. We have increased our focus on diversity and more specifically



The issue of gender equality is important for two reasons. First, it is a matter of justice. There is no reason why men and women should have any differences in opportunities, rights and responsibilities. At Swedish Match, we measure performance, attitude and skills. Nothing else. Second, it's a question of competitiveness. If we are to be a successful Company, we must have the best people in every place, and 50 percent of the best people are women. ”

Joakim Tilly, President, Scandinavia Division

gender equality, as actions within this field are a prerequisite for a level playing field and equal opportunities.

Cooperating for equal opportunities

During 2017, we will deepen the cooperation within HR and between operating units and continue our work in more detail to find common ground within the Group, and develop local action plans. We will map diversity and gender balance in a coherent way throughout the Company. On the basis of this mapping, we will set targets and develop KPIs on diversity and equal opportunity, as local laws permit. Our starting point in terms of performance indicators are presented in tables *Employees* and *Group Management and Board of Directors*.

Increasing gender equality within parts of our Swedish operations

In 2013, Swedish Match was listed on AllBright's¹⁾ black list of Swedish companies that did not have any women in their group management team. The following year, the Company made an analysis of the current gender equality situation within Swedish Match's Corporate Functions, Scandinavia Division and SMD Logistics. The result revealed an equal workplace when looking at the total workforce, however, only 22 percent of management positions were filled by women. This became the starting point of an ongoing effort to bring about change on gender inequality issues.

A new gender equality plan, including specific goals and activities, was launched in 2015. The plan is evaluated regularly and will be revised in 2020. In 2016, a gender equality council was established with the main objective of monitoring the plan and to have ongoing dialogue as to how we can improve within this area. All managers with direct reports have been trained on gender equality issues and what is expected from them in order to reach the goals of the gender equality plan. They are also obliged to inform and to discuss the plan with the employees and to actively participate in efforts to achieve its objectives. Awareness is key to addressing unconscious bias and a major focus has been on methodical awareness raising activities on our intranet. Activities also include the launch of a new talent program (with 50/50 women/men). Significant focus has also been given to gender equality in the recruitment and payroll processes.

¹⁾ AllBright is a politically independent, non-profit foundation that promotes equality and diversity in senior positions in the business sector.

Promoting equal employment opportunities in the US

In the US, equal employment of all employers is required by law. 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 full 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. In the US, we increased our share of female employees from 29 percent in 2015 to 30 percent in 2016, as well as our total minority¹⁾ population from 15 to 16 percent.

Providing work opportunity in the Netherlands

At Swedish Match Lighters BV, in Assen, the Netherlands, we provide working opportunities for people who have difficulties accessing the regular labor market. For several years, we have worked closely with the Social Workplace which employs people with different disabilities. At present, more than 30 employees from the Social Workplace are working with packaging and printing in the Swedish Match factory. These employees are formally employed by the Social Workplace, but by working on site, they are regarded as any other Swedish Match employee.

¹⁾ Minorities, in the US, is defined as anyone who is not white (non-hispanic).



Employees at Swedish Match's match factory in Tidaholm, Sweden.

Employees	2016	2015	2014
Total number of employees ¹⁾²⁾	5,460	4,850	4,402
Share of female employees, %	35	N/A	N/A
Share of female managers ³⁾ , %	22	N/A	N/A
Share of female white collar employees, %	31	N/A	N/A
Share of female blue collar employees, %	37	N/A	N/A
Employees who agree that they are free from discrimination at work, %	94	-	92

¹⁾ In this table, the figure for total number of employees represents figures at December 31, 2016. Due to differences in methodologies, this figure does not correspond to the figure for average number of employees in Note 5 Personnel, page 75.

²⁾ Including temporary employees.

³⁾ Managers with direct reports.

Group Management and Board of Directors	2016	2015	2014
Total number of members in Group Management	8	7	7
Share of female members in Group Management, %	25	29	29
Total number of members in Board of Directors ¹⁾	11	10	10
Share of female members in Board of Directors ¹⁾ , %	45	40	40

¹⁾ Including employee representatives.

INCREASED SHARE OF FEMALE EMPLOYEES AT SMD LOGISTICS

During the year, we have worked actively towards receiving an equal selection of male and female candidates in recruitment processes. SMD Logistics serves as a positive example for this way of working. During 2016, the number of women at the SMD Logistics warehouse increased from three to 30. Prior to this initiative, nearly all applicants were men, making it difficult to recruit women. By ensuring an equal amount of female and male applicants, new opportunities have arisen to increase the number of women in the workplace.

PARENTAL LEAVE IN THE US

In the US, only 12 percent of private sector employees have access to any type of paid leave through their employer. Swedish Match has always offered short term disability pay to mothers of newborns. In 2016, we extended our leave benefit to include up to three weeks of paid time off to the other parent as well. This new “baby bonding” leave benefit has already been utilized by a number of employees and is viewed by all employees as a great addition to the Company's leave benefit plans.



ELIMINATE CHILD LABOR

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

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

Our commitment

At Swedish Match, 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 source materials from. In our efforts, we put special emphasis on child labor and related human rights issues. Swedish Match does not consent to child labor anywhere in our value chain. We acknowledge the fact that child labor is not a stand-alone issue and tackling the issue requires a holistic approach. Our efforts are continuous, and the timeline and goal of this focus are long term.

ECLT Foundation and the Pledge of Commitment

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

For more information on ECLT Foundation and the Pledge, see the ECLT Foundation's website, www.eclt.org.

Assessing risk of human rights violations

In the assessment of risk of human rights violations in our value chain we have identified child labor as a specific issue to address in our efforts to promote respect for human rights. We are dependent on raw material from agriculture and forestry for our products.

According to ILO, approximately 168 million children are involved in child labor worldwide; 59 percent of these children are found in agriculture. With tobacco being an agricultural product, there is a significant risk of child labor. The issue of child labor is extensive and complex; it requires commitment from us as well as from farmers, suppliers, governments and other manufacturers.

During 2016, we have assigned external expertise to advance the risk assessment of human rights and in particular child labor. We have reassessed the major risk landscape in relation to all suppliers of direct materials based on manufacturing country or origin of raw material, known category and industry risks¹¹ as well as spend. We have pursued a more in-depth social impact assessment at industry-level, to identify potential and specific human and labor rights risks, for a limited number of higher risk categories of direct materials.

The results of the work thus far show that 56 suppliers of direct material may be classified as high risk based on industry risk and country of origin. The clear majority are suppliers of raw tobacco, the remaining part are suppliers of lighter components or finished products sourced in Asia or Africa. These results confirm our initial focus on suppliers of raw tobacco in our efforts to manage our supply chain more sustainably. The results also confirm our continued focus on child labor and child rights, with child labor and women and child risks rated as the top human rights risks, followed by forced labor/debt bondage, hazardous exposure to chemicals and limited access to safe drinking water/sanitation, for the tobacco category. This risk assessment forms the basis for our efforts to assess and mitigate specific risk in dialogue with prioritized suppliers in 2017.



Eliminating Child Labour in Tobacco Growing

¹¹ Classification of risk has previously been done mainly based on geographical location and the Corruption Perception Index of Transparency International (CPI). In this refined assessment, the CPI has been cross-referenced with Maple Croft's Human Rights Index and complemented with specific industry-related risk of human and labor rights violations.

UNACCEPTED CHILD LABOR

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

The minimum age for work should be above the age for finishing compulsory schooling, which is generally 15 years of

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

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

Identifying, preventing and mitigating child labor in our value chain

The risk of child labor is low within our own operations. To ensure that this remains the case, we continuously keep human rights high on the agenda and will continue to train our employees on the subject as well as conduct internal audits.

To identify specific risk upstream in our value chain, we will continue to work with tools and processes as described in the section on *Sustainable Supply Chain*, page 34. For our suppliers of direct materials other than raw tobacco we will further systemize our work to assure compliance to our Supplier Code of Conduct. We will intensify the dialogue on specific risk with prioritized suppliers. The STP is our major tool to conduct due diligence and to mitigate child labor and child risks in our supply chain for raw tobacco. The general findings for tobacco growing and processing in the risk assessment complemented with identified areas for improvement within the STP will further our progress towards increased knowledge-building of the tobacco value chain, which improves our ability to identify, prevent and mitigate child labor and child risks.

Building knowledge and tracking progress

We will build further on our in-depth knowledge concerning the people and conditions in our raw tobacco value chain and confirm it in third party reviews in the coming two years, as described in the section of *Sustainable Supply Chain*, page 34. This will be done in cooperation with our suppliers. We will identify parameters and indicators to track and find effective ways to work proactively towards our goal.

Investing in communities

Swedish Match has a long history of social investments and community involvement, providing support for children, the disabled, and people in need as well as other important initiatives in community life.

Going forward, we will seek to support projects that will contribute in addressing the issue of child labor and other child related risks in areas where we have presence or from which we source material. In an effort to move in this direction, Swedish Match will support an ongoing project in the Philippines, providing after-school activities to pull children out of tobacco fields during the harvesting season. This program has shown to be effective in preventing child labor. Funding of this project will complement our own efforts within our focus area to eliminate child labor.

Developing performance indicators

We will continue to develop indicators and measure our efforts on sustainable supply chain management and child labor issues in 2017. The table *Supply chain management* presents indicators identified at present.



Supply chain management	2016
Number of raw tobacco suppliers ¹⁾	61
Share of raw tobacco suppliers included in STP, %	67
Number of 3 rd party audits performed on raw tobacco suppliers	8
Number of farms visited by Swedish Match Leaf Operations	122
Number of audits for child labor issues performed on suppliers of other direct material	To be reported

¹⁾ Raw tobacco suppliers are viewed as individual suppliers per country.



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.

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

Our commitment

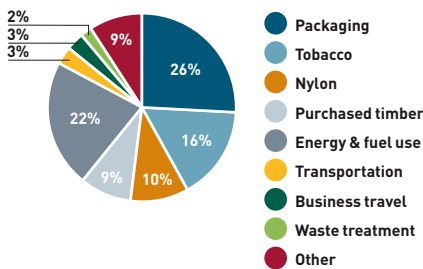
Our operations are highly dependent on resilient eco systems; we cannot do business without significant input of raw material from nature. At Swedish Match, we set out to do our part in addressing climate change and commit to map and actively reduce emissions in our business value chain.

Accounting for greenhouse gases in our value chain

We have assessed and reported greenhouse gas (GHG) emissions for Scope 1 (direct emissions), Scope 2 (indirect emissions) and part of Scope 3 (other indirect emissions not covered in Scope 2), according to the Greenhouse Gas Protocol¹⁾, since 2008. On an aggregate corporate level, the target has been to stay at or below the baseline established in 2008, which has been met.

During 2016, we have extended our scope for GHG emissions and mapped the full value chain according to the Corporate Value Chain Standard (Scope 3) of the Greenhouse Gas Protocol. This has been done with the help of external expertise. The climate footprint for Swedish Match amounts to 254,572 ton CO₂-equivalents (CO₂e) for the year 2016. Scope 1 and 2 emissions (from our own operating units and including production of energy) account for 13 percent of the total GHG emissions. The remaining 87 percent include emissions both up- and downstream (Scope 3) in our value chain. The larger part of the Scope 3 emissions stem from the extraction and production of raw materials, e.g. tobacco, purchased timber and nylon, as well as packaging material. Figure *Main sources of GHG emissions in value chain* depicts the distribution of the footprint across main sources of emissions.

MAIN SOURCES OF GHG EMISSIONS IN VALUE CHAIN



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

This first GHG accounting, including the full Scope 3, covers data for all operations controlled by Swedish Match. Generic emission factors have been used to a large extent to calculate emissions²⁾. All six GHGs covered by the Kyoto Protocol³⁾ are included in the calculations and assumptions and emission factors have followed a conservative approach. With this scope we have formed a new baseline for our efforts on reducing GHG emissions, highlighting the importance of also focusing efforts up- and downstream in our value chain.

¹⁾ International standard for calculating and reporting climate impact from business activities.

²⁾ Main sources of reference for emission factors include DEFRA, Ecoinvent and IEA.

³⁾ IPCC Fourth Assessment Report.

⁴⁾ As described by the Intergovernmental Panel on Climate Change (IPCC).

Setting science-based targets

In 2017, we will refine the initial mapping with more specific data from our suppliers and pursue a more proactive dialogue on potential reductions of GHG emissions. We will explore the possibility to adopt an emission reduction strategy with science-based targets. 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 levels⁴⁾. The work done within this focus area provides input to the update of our environmental management systems according to 14001:2015. For more information, see *Creating a common approach*, page 43, in the section on Reduce waste and emissions.

Creating a new baseline for performance indicators

Table *Greenhouse gas emissions* presents indicators for the full value chain. The year 2015 forms the new baseline for our efforts. With a clear roadmap for emission reductions developed in 2017, our intentions are to also report on reduced emissions.

Table *Energy use in our own operations* presents energy indicators for our own operations as a supplement to indicators on GHG emissions.

Greenhouse gas emissions (metric tons CO ₂ e)	2016	2015	2014
Scope 1 ¹⁾	11,985	11,998	13,128
Scope 2	20,213	19,917	19,974
Scope 3	222,375	208,018	14,845 ²⁾
Total emissions	254,572	239,934	N/A
Total emissions (per MSEK sales)	16.4	16.6	N/A

¹⁾ Changed methodology compared to previously reported figures. Biogenic emissions are excluded.

²⁾ Parts of Scope 3 were estimated, emission sources include business travel and transportation.

This Scope has been widened since 2014.

Energy use in our own operations (MWh)	2016	2015	2014
Total direct energy use	95,963	92,157	99,594
Total direct energy use (per MSEK sales)	6.2	6.4	7.5
Total indirect electricity consumption	67,305	66,248	67,628

INITIATIVES TO REDUCE EMISSIONS

While the most significant stride we have taken in 2016 is to complete the mapping of GHG emissions in our value chain, several actions have been taken to reduce emissions at local level. Actions include introducing new technology to reduce travel while also increasing employee collaboration, optimizing sales force movements with updated territory planning, pursuing dialogue with suppliers of transport services to encourage reduction of emissions, and increasing energy efficiency as well as green energy use in facilities. Part of the efforts stem from employee initiatives. When all of this work together, small, but important steps can be made, which help to increase engagement in the importance of reducing emissions.



REDUCE WASTE AND EMISSIONS

Our goal is to eliminate undesired emissions to air and water flows, as well as waste, from our production facilities.

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

Our commitment

At Swedish Match we work systematically to reduce other emissions to air (other than GHG) and water from our production facilities as well as to reduce waste. We enhance the effectiveness of our work by a common systematic approach, sharing best practice, environmental standards and target setting across the Group.

Managing environmental performance

Our production facilities (83 percent) are ISO 14001 certified, with the exception of our match factories in Curitiba and Pirai do Sul, Brazil. Reduction of waste and emissions to air and water has been in focus in our production facilities for a long time, mainly driven by the ambition to reduce cost and comply with local laws and regulations. This work has been directed locally and, to a large extent, in close dialogue with local authorities and other stakeholders. Results have been compiled to a group common report on environmental performance. Local environmental impact from our production facilities mainly constitutes use of energy, materials, chemicals and water as well as waste and emissions to air and water from different processing steps.

Creating a common approach

We are reforming the original platform for environmental issues to increase cooperation and emphasize exchange of knowledge and ideas between facilities. In 2016, we assessed material flows through our production facilities. The initial focus was on input flows to our system in terms of materials, chemicals and energy. This assessment will be further refined with emphasis on output flows, we will assess and measure emissions to air and water in more detail to complete the overview. Based on this assessment we will assure a common approach to identifying significant environmental impacts for our facilities. We will set group common targets and KPIs for waste and emissions, and complete local action plans. Our extended efforts coincide with the update to the current version of the standard, ISO 14001:2015, which emphasizes an increased lifecycle perspective and intensified dialogue with stakeholders, as well as engagement on the part of management. In the coming year, we will transition to ISO 14001:2015.

Refining our performance indicators

In 2017, we will form a new baseline with refined indicators for waste and emissions to air and water from our facilities. Until then, we keep reporting relevant performance indicators that we have reported on in previous years. Tables *Total waste* and *Treatment method* presents amounts of waste generated within the group and allocated per treatment method.

Total waste (metric tons)	2016	2015	2014
Non-hazardous waste	20,998	22,346	22,160
Hazardous waste	764	775	823
Total waste	21,762	23,121	22,982
Total waste (per MSEK sales)	1.4	1.6	1.7

REDUCING WASTE IN THE SNUS FACTORIES

In 2016, several initiatives to reduce waste were taken in the snus factories in Gothenburg and Kungälv, Sweden. For example, improvements were made in the product recipe for pouch production resulting in a reduction of 200 metric tons of propylene glycol on an annual basis. A program to substitute hazardous chemicals for cleaning in the repair shop and in the laboratories resulted in the removal and exchange of 19 chemicals, and an exchange plan for another six. The amount of chemicals for process cleaning in the Kungälv plant was reduced by approximately 35 percent as a result of optimization. From 2017, all biodegradable waste from the canteens will be sorted out as a separate waste fraction with an estimated 20 metric tons being treated to biogas, bio-fertilizer or compost soil on an annual basis.

REDUCING ODOR AND PARTICULATE MATTER FROM THE GOTHENBURG SNUS FACTORY

During 2016 we have installed new equipment to reduce odor and emission of particles to air from the process of mixing tobacco in the Gothenburg factory. The factory is situated near the center of Gothenburg, and odor has increasingly become an issue for people living and working in the neighborhood. Through combustion of outgoing air 99 percent of odor will be reduced. We have also complemented our existing pre-treatment of waste water with a sedimentation stage, resulting in a 90 percent reduction of suspended matter in effluents.

SUSTAINABLE TOBACCO PROGRAMME

Complementary to our efforts within our own facilities, is the work at supplier and farm-level for raw tobacco. Through the Sustainable Tobacco Programme, we cover the value chain upstream for a wide range of environmental aspects, including water and soil management, pesticides, waste and GHG emissions, in relation to tobacco grown for snus, moist snuff and chewing tobacco.

Treatment method (metric tons)	(%)	2016	2015	2014
Incineration	76	16,454	18,372	17,908
Landfill	11	2,362	2,095	2,220
Reuse/recycling	8	1,737	1,414	1,606
Hazardous waste	3	750	765	817
Composting	2	458	475	431