



SUSTAINABILITY





CEO comment

“ Sustainability remains a key focus for Swedish Match.”



Sustainability is an integral part of our business. MSCI, the leading ESG rating index, once again rated Swedish Match as a leader within our sector in the areas of corporate governance, product safety and quality as well as supply chain labor standards. Despite the ongoing pandemic, I am encouraged by the determination and focus of our employees on making continuous improvement in addressing sustainability issues. During 2020 we have made a great deal of progress towards our goals and I am pleased to share some of the highlights with you.

To make sure our focus areas stay relevant, we have conducted a comprehensive assessment of the prioritized sustainability topics for the Company with high involvement from the Group Management Team and in-depth dialogues with our key stakeholders. I am pleased to note the outcome of this assessment reassured us that the direction we have is on course. Only slight alterations to the focus areas have been made to reflect stakeholder inputs and relevant trends, resulting in five focus areas: Improve public health, Ensure ethical business practices, Reduce environmental impact, Human rights in our supply chain, and Equal opportunity. These areas set the foundation for Swedish Match's sustainability strategy and its ambitions, which are reflected on the following pages.

During 2020 we continued to take significant steps toward our vision of a world without cigarettes. We submitted our PMTA applications to the US FDA for our range of ZYN nicotine pouches, and actively engaged with the Agency as it commenced its scientific review. The applications provide details which show that almost all harmful and potentially harmful components commonly associated with tobacco products have been reduced below detection level. The applications also provide information which shows that the product is very interesting for tobacco consumers and the present ZYN consumers have come almost exclusively from this group. Meanwhile Swedish Match has further expanded its presence of ZYN in the US as well as introduced the brand into several countries in Europe. The most important goal of Swedish Match regulatory efforts in Europe is to initiate regulation for nicotine pouches and we have seen some examples of traction in this respect during the year.

With regard to our focus on addressing environmental impact, we remain committed to our science-based climate targets. Our 2020 target with a reduction of 12 percent from 2017 levels was

not achieved, despite a significant improvement per unit of sales. However, in 2020, we started to note tangible results from several of the initiatives that we have worked on for some time, particularly from our engagement with suppliers, and in the past year alone the reduction was 7 percent versus the prior year, despite the impressive growth of our business. Our growth ambitions remain intact, but we raise our annual reduction target from 4 to 5 percent for the coming years to reflect our commitment to the science-based targets and the Paris Agreement. This raised ambition is also reflected in the Long Term Incentive plan for our senior management where greenhouse gas reduction target has been included as one of the performance criteria since 2020.

During the past year, Swedish Match has been a key contributor to the development of the new Sustainable Tobacco Program (STP), which was successfully launched during the fourth quarter 2020. The new STP aims to improve our environmental and social footprints, enable transparent communication of responsible practices across our tobacco supply chain, and contribute to UN Sustainable Development Goals. The program, a cross industry collaborative effort, will have several touchpoints aligned with our focus areas, not least in relation towards prevention and mitigation of child labor and other human right risks in our tobacco supply chain. Nearly all of our tobacco suppliers for smokefree products are included in the program and we expect to receive the result of the first assessment cycle in 2021.

In our focus area Ethical business practices, we have revised and expanded goals to further enhance our commitment in this area, highlighting our commitment to responsible marketing practices. For Equal opportunities, I am pleased to see that the global employee survey conducted during 2020 showed improvements on every parameter measured compared with the survey from 2018.

We acknowledge that there is always room for improvement when addressing social, environmental, and governance topics but we are committed to our responsibilities as an organization and look forward to continuing the journey towards our targets and vision.

Lars Dahlgren
President and CEO



HIGHLIGHTS 2020

-7% CO₂e

emissions compared to 2019



Close to 100%

of total cigar consumer packaging converted to film with lower aluminum content

100%

of significant suppliers¹¹ of direct material have committed to the principles of Swedish Match Supplier Code of Conduct

97%

of our purchased raw tobacco volumes included in STP or in Swedish Match's due diligence program



49%

of total energy used in our own operations was fossil free versus 44% in 2019



Improvement

in all parameters for the 2020 global employee survey compared to the prior 2018 survey

Launch of

Cricket Eco

– the first lighter body in the world made from recycled nylon

¹¹ A significant supplier of direct material is defined as a supplier with which Swedish Match has a significant level of spending. All suppliers of raw tobacco are included and each is viewed as an individual supplier per country. The suppliers have either signed our Supplier Code of Conduct or have their own Codes of Conduct and mechanisms which are broadly similar to our Supplier Code of Conduct.



Our materiality assessment

Result from our materiality assessment conducted in 2020 provided support that the direction we have taken is the right one. Only slight alterations have been made to reflect relevant trends and

stakeholder feedback, resulting in five updated focus areas as shown below. These areas provide the foundation for our sustainability strategy and ambitions.

SWEDISH MATCH GROUP FOCUS AREAS

Focus area

Goal

Target

Value chain



Improve public health

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

- Development and commercialization of nicotine harm reduction products that are attractive to cigarette users and dramatically safer sources of nicotine compared to cigarettes.
- Increased consumer awareness and consumer 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.

Raw material
Supplier
Own operations
Transport/Distribution
Customer
Consumer



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.

- Ethical business practice fully embraced and integrated into our corporate culture.
- Zero level of incidents rooted in non-ethical business behavior.
- Responsible marketing with 100 percent compliance with our policy to exclusively market to adult consumers.

Supplier
Own operations
Transport/Distribution
Customer
Consumer



Reduce environmental impact

Our goal is to limit our environment footprint while growing our business. We are committed to reducing our greenhouse gas (GHG) emissions and waste along our value chain from sourcing to our own operations and continuing through consumer use.

- Reduce emissions of greenhouse gases by 41 percent by 2030 and by 75 percent by 2050, with 2017 as the base year, in our whole value chain (Scopes 1, 2 and 3).
- To reach our goal by 2030 and 2050, we are committed to reducing GHG emissions by 5 percent per year.
- Reduce total waste per unit of net sales and aim to keep hazardous waste at the absolute minimum.
- Increase our efforts to prevent post consumer waste.

Raw material
Supplier
Own operations
Transport/Distribution
Customer
Consumer



Human rights in our supply chain

Our goal is the elimination of child labor and other human rights violations in the Company's supply chain.

- Robust systems to identify, prevent and mitigate child labor or any other human rights related issues in our entire supply chain.
- 100 percent child labor free tobacco.
- 100 percent of our raw tobacco suppliers covered by STP or Swedish Match's due diligence program.

Raw material
Supplier
Own operations



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.

- 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 management¹¹.
- To increase diversity in cultural backgrounds.

Own operations

¹¹ Defined as participants in the Company's Long Term Incentive (LTI) program, composed of 39 individuals in 2020.



ASSESSMENT PROCESS

The process was facilitated by an independent leading audit firm in Sweden and the approach to identify the material areas included three steps.

1. Scanning of general trends and identification of topics
2. Stakeholder dialogue
3. Review and validation by the Group Management Team

1. Scanning of general trends and identification of topics

The first step was to identify a long list of material sustainability topics most relevant for Swedish Match. The scanning was based on a comprehensive review of the UN Sustainability Development Goals (SDG), benchmark assessments of peers within the food and beverage industry, commentary from critical ESG ratings, as well as current and emerging sustainability directive and regulations

that might affect the Company. The findings from the review, as shown below, resulted in a total of 17 topics, divided into five overall categories based on focus areas at that time and suggested additions. Alongside this, key internal and external stakeholders to Swedish Match were identified for stakeholder dialogue.

Public health	Ethical business practices	Environment	Responsible farming and sourcing	Our people
Harm reduction and health impacts Improving public health by offering attractive and safer smokefree alternatives to cigarettes and educating consumers on the relative risks of different types of nicotine products. Addressing the risks associated with our products by eliminating or reducing undesired attributes	Ethics and integrity Promoting sound business ethics and ensuring high standards, addressing aspects such as corruption and bribery, competition, anti-money laundering, and other relevant topics	Climate change Reducing GHG emissions, as well as addressing impacts on Swedish Match's operations from climate change, such as extreme weather	Child labor Respecting the rights of the child and zero-tolerance of child labor	Diversity and inclusion Promoting an open and inclusive work environment where all employees shall have equal opportunities
Responsible and transparent R&D practices Ensuring the credibility, integrity and robustness of our scientific research through alignment with international standards and transparency on methodologies and results	Regulation and policy engagement Conducting our regulatory engagement activities in a transparent and accountable manner, and applying robust procedures for charitable and political contributions	Production resource efficiency Reducing waste and increasing resource efficiency in own operations	Respect for human rights Respecting universal human rights and supporting internationally proclaimed human rights conventions and guidelines	Occupational health and safety Promoting employees' health, safety and well-being in the workplace
	Responsible marketing practices Directing advertising to adult users only, ensuring labeling and marketing convey clear information on health risks	Product packaging and consumer waste Reducing the environmental footprint from our packaging materials, e.g. by improving recyclability, developing alternative materials and promoting anti-littering behavior	Farmer livelihoods Providing safe and fair working conditions in tobacco growing communities, and promoting living income to achieve farmers' well-being	
	Responsible and transparent tax management Promoting an open and transparent tax approach, not conducting aggressive tax planning	Water stress and pollution Protecting water resources through reducing use, promoting water recycling and preserving water quality	Community support Contributing to local communities' development through investments, charitable donations and employee volunteering initiatives	
		Deforestation and biodiversity Preventing deforestation and reducing negative impact on ecosystems in our business operations		



2. Stakeholder dialogue

A variety of stakeholder groups were engaged in the dialogue, including investors, business partners, the Group Management Team as well as representatives from employees, consumers, regulators and the scientific community. Overall, we received high response rates and engagement level from our external stakeholders. In order to gain deeper insights from the dialogue, we gathered stakeholder input through a comprehensive survey followed by in-depth interviews. The dialogue composed of both general questions and tailored questions for respective stakeholder groups. All stakeholders were asked to identify current and upcoming important topics from two perspectives: 1) areas where Swedish Match's operations impact the outside world; and 2)

areas where the operations of Swedish Match may be negatively impacted by the outside world, i.e. the topics important for Swedish Match to address from a risk perspective. Additionally, the Group Management Team provided input on where in the value chain our ability to affect lies. We believe this approach provided a comprehensive picture to identify the most relevant topics.

3. Review and validation by the Group Management Team

Based on the consolidated response from the stakeholder dialogue, a validation workshop with the Group Management Team was held to align the different perspectives, resulting in a ranking of topics into three tiers specified below.

	Tier 1 topics	Tier 2 topics	Tier 3 topics
Public health	Harm reduction through smokefree products with low health impacts		Responsible and transparent R&D practices
Ethical business practices	Responsible marketing practices	Regulation and policy engagement	Responsible and transparent tax management
	Ethics and integrity		
Environment	Climate change	Production resource efficiency	Water stress and pollution
	Product packaging and consumer waste		Deforestation and biodiversity
Responsible farming and sourcing	Child labor		Farmer livelihoods
	Respect for human rights		Community support
Our people	Diversity and inclusion		Occupational health and safety

We were pleased to note that our harm reduction concept is well accepted among our key external stakeholders and remains central to our sustainability strategy. Some alterations have been made to reflect the result of the materiality assessment including input from our stakeholders. The changes of focus areas entail the following:

- Highlighted focus on responsible marketing practices – now included under the focus area Ensure ethical business practices.
- Focus areas Reduce greenhouse gas emissions and Reduce waste have been combined under a new focus area named **Reduce environmental impact**. In addition to waste reduction from our own operations, an increased focus will also be put on reducing post-consumer waste by improving recyclability of our packaging solutions and promoting anti-littering behavior.

- While child labor remains the most important human right issue for the Company to address, the focus area Eliminate child labor has been expanded to also cover other human and workers' rights aspects in the supply chain and named **Human rights in our supply chain**. This alteration reflects the perspective from our stakeholders and are aligned with the scope orientation under the Sustainable Tobacco Program, which is our main due diligence tool in this area.



OTHER TOPICS OUTSIDE OUR FOCUS AREAS

Our Code of Conduct covers important sustainability topics above and beyond our five focus areas. It includes our policies on practices regarding ethical business, employment and labor, the environment and workplace. For best impact and transparency, we believe that group-wide efforts and reporting are most effective if concentrated to key focus areas. Through participation in the Sustainable Tobacco Program, STP, (page 43), we also address a broad array of key sustainability issues in our tobacco supply chain.

Some of the specific questions we have received from external stakeholders relate to deforestation and biodiversity, water stress and occupational health and safety. More explanations are provided below with regards to why these topics are not included in our Group sustainability focus areas and how we approach them.

Deforestation and biodiversity

Swedish Match does not own any other farms except for our forestry plantations in Brazil. Our plantations in Brazil comprise poplar and pine wood in two reforestation projects in the south of the Paraná state and in the north of the Santa Catarina state. We replant more than we harvest every year for our pine forest. Based on normal annual harvesting, this involves replanting approximately 150 hectares annually. Due to the combination of declining demand of matches and technological advancements on our side that have enabled wider usage of pine wood, we have sold a majority of the land used for poplar plantations in Brazil. Our ownership of land measured by hectares has been reduced by 32 percent over the past two years, from 5,958 in 2018 to 4,062 in 2020.

Our operations in Brazil protect biodiversity in the plantation by, for instance, restraining external human access to its lands and forests, prohibiting hunting and fishing, and keeping surveillance services in forests. We stopped using pesticides for forestry disease control in 2018.

In our tobacco supply chain, a vast majority of the tobacco used does not require wood fire in its processing. Processing that dries the tobacco over an open wood fire might in some cases lead to deforestation. In addition, we address the issue through participation in STP. Under the new STP, there will be a dedicated theme for Natural habitats. All the participating suppliers will be subject to generic risk screening and self-assessment to evaluate their impact on deforestation and biodiversity in the local communities where they operate.

If our suppliers have subsidiaries located in geographies where there is an elevated risk of non-compliance with the high standard set by STP for deforestation, in-depth assessments will be performed by a third party with subject expertise. Results of these assessments will form the foundation for a dialogue for improvement between us and the suppliers.

Water stress

Swedish Match neither withdraws water from any source that is significantly affected by the water withdrawal, nor discharges water into sensitive water bodies. Swedish Match's water footprint in absolute terms is fairly low as the Company's production processes require rather low water usage. Our smokefree products are manufactured in Sweden, Denmark and the US. For cigars, matches and lighters, a significant proportion of our production occurs in the US (cigars), Sweden (matches) and the Netherlands (lighters) which are areas that have well-developed regulations with regard to water sourcing and use.

One area where Swedish Match needs a higher water supply is for its poplar farms in Brazil where trees historically have been planted to be used in the Brazilian match production. Drier periods during spring and summer may lead to a higher necessity of irrigation. However, as mentioned earlier, our technological advancements made in recent years have enabled us to replace the majority of the poplar wood used in our match production with pine wood. Unlike poplar plantations, pine plantations do not need any irrigation. With this initiative we have reduced our own water use to an even lower level.

We address potential issues related to water use from our tobacco supply chain through participation in STP. Under the new STP, there will be a dedicated theme for water stewardship with a similar due diligence process as described under deforestation.

Occupational health and safety

Employees' safety and well-being are matters of high importance to us. We believe that specific activities carried out at the divisional level are in place to help ensure the physical and mental wellbeing of our employees. This has been demonstrated by the different measures taken place locally to protect our employees during the COVID-19 pandemic. Each division tracks safety metrics for employees and subcontractors and reports data to the CEO.





Our contribution to the UN SDGs

Nine of the UN SDGs align with our sustainability focus areas where we believe we can have a meaningful impact and where we have tangible commitments and goals connected to the detailed targets set by the identified SDGs. We also contribute to seven of the remaining eight¹⁾ goals through our general business contribution and societal engagement.

UN SUSTAINABILITY DEVELOPMENT GOALS ALIGNED WITH OUR FOCUS AREAS

Focus areas	Annual report page(s)	How Swedish Match contributes to the SDGs 2030 targets	SDGs 2030
<p>IMPROVE PUBLIC HEALTH</p> <p>Our goal is to eliminate cigarette use and tobacco related morbidity and mortality by offering smokers attractive and safer sources of nicotine for recreational use (such as Swedish snus and other nicotine containing products like ZYN).</p>	44–46	<ul style="list-style-type: none"> We work to reduce the premature mortality by offering cigarette smokers attractive and dramatically safer alternative tobacco and nicotine products. (Goal 3.4) We work to ensure that our “Adult only tobacco and nicotine” policy is followed. (Goal 3.A) We inform consumers about the health effects of our products and the addictive nature of nicotine. (Goal 3.A) 	
<p>ENSURE ETHICAL BUSINESS PRACTICES</p> <p>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.</p>	47–49	<ul style="list-style-type: none"> We do not tolerate any form of corruption or bribery. (Goal 16.5) We work to protect labor rights and ensure safe and secure working environments. (Goal 8.8) 	
<p>REDUCE ENVIRONMENTAL IMPACT</p> <p>Our goal is to limit our environment footprint while growing our business. We are committed to reducing our greenhouse gas (GHG) emissions and waste along our value chain from sourcing to our own operations and continuing through consumer use.</p>	50–54	<ul style="list-style-type: none"> We work to achieve an environmentally sound management of chemicals used and our waste throughout their life cycle as well as reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment. (Goal 12.4) We take action to combat climate change. (Goal 13.1) We work to prevent and reduce pollution to water. (Goal 14.1) We work continuously and systematically to assess risk and reduce the negative impact on the environment. (Goal 12.5) 	
<p>HUMAN RIGHTS IN OUR SUPPLY CHAIN</p> <p>Our goal is the elimination of child labor and other human rights violations in the Company’s supply chain.</p>	55–58	<ul style="list-style-type: none"> We take action to eliminate child labor in all its forms in our value chain. (Goal 8.7) We partner in multi-stakeholder initiatives to work toward common goals. (Goal 17.16) 	
<p>EQUAL OPPORTUNITY</p> <p>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.</p>	59–62	<ul style="list-style-type: none"> We do not tolerate any kind of discrimination including discrimination based on gender. (Goal 5.1) We work toward having at least 40 percent of each gender in senior management. (Goal 5.5) We are working to ensure equal opportunities and to prevent discrimination. (Goal 10.3) 	

¹⁾ Swedish Match has identified that SDG 11 – Sustainable cities and communities is not specifically related to our business operations and focus areas, as we are a manufacturing company with very limited impact on e.g. urbanization, transportation and the safeguarding of natural heritages.



UN SUSTAINABILITY DEVELOPMENT GOALS ALIGNED WITH OUR GENERAL BUSINESS CONTRIBUTION AND SOCIETAL ENGAGEMENT

SDGs 2030

How Swedish Match contributes to the SDGs 2030 targets



NO POVERTY

End poverty in all its forms everywhere.

The majority of Swedish Match employees are located in certain developing countries or areas where poverty may be high (Dominican Republic, the Philippines and Brazil), providing both job opportunities and livelihoods for workers and their families.

Our procurement of tobacco and other raw materials is often sourced from areas where the opportunities for high quality source of income are low, such as tobacco growing areas in Asia and to a limited degree in Africa. Tobacco in these areas generally provides some of the highest level of income of any agricultural products that may be produced in these areas.



ZERO HUNGER

End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

Swedish Match addresses the hunger and food security issues by providing for livelihoods in geographies where there may exist high levels of hunger, areas where we provide employment and from which we source our raw materials. (See also SDG 1).



QUALITY EDUCATION

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Swedish Match contributes to this SDG through for instance the provision of a scholarship program for our employees' children in the US. Swedish Match's support to the ECLT Foundation also contributes to this goal. ECLT Foundation has provided access to education, through for instance programs in numeracy and literacy in the tobacco growing areas.



CLEAN WATER AND SANITATION

Ensure availability and sustainable management of water and sanitation for all.

For more information on how we manage water stress in our operations and tobacco supply chain, see page 36.



CLEAN ENERGY

Ensure access to affordable, reliable, sustainable and modern energy for all.

Swedish Match contributes to this SDG by actively increasing the share of renewable energy in its own operations. For instance, our two largest smokefree manufacturing facilities in Sweden have become fossil fuel free production sites during 2020.



INDUSTRY, INNOVATION AND INFRASTRUCTURE

Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

During the journey to achieve our vision of a world without cigarettes, we have been at the forefront of change to provide smokers with safer alternatives to cigarettes. We have also innovated our manufacturing practices to be more energy and resource efficient.



LIFE ON LAND

Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

For more information on how we prevent deforestation in our operations and tobacco supply chain, see page 36.



Management approach

Swedish Match's vision is 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. This is where we believe that we are able 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.

Focus and organization ownership

Our sustainability strategy is founded on two basic principles – focus and organizational ownership. While our sustainability work spans across a broad array of topics, for best impact and transparency we believe that group-wide efforts and reporting are most effective if concentrated to key areas of focus with strong organization ownership. Through this strategy, we emphasize five focus areas – Improve public health, Ensure ethical business practices, Reduce environmental impact, Human rights in our supply chain, and Equal opportunity – 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. These focus areas form the basis for our common roadmap; this is where we put extra effort and coordinate external reporting. Swedish Match has set a series of tangible commitments and goals for each of the focus areas and will continue to measure and report its progress. 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.

Swedish Match is a global company made up of largely autonomous divisions. We have ensured that the 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 most likely to come up and best followed

through. While taking a common Group approach in our focus areas, we maintain a number of sustainability initiatives above and beyond these focus areas with tailored targets and actions at the divisional levels.

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 to and involved in the process to define and further develop the strategy. Divisional heads are responsible for implementing the strategy in their respective operating units.

Swedish Match addresses sustainability with the same priority and management approach as the rest of our strategic priorities. It is fully integrated into our business review, strategic planning and risk management process. Each quarter the divisions are responsible to provide progress update for each sustainability focus area, creating a positive forum for discussion of opportunities and risks. The controlling function at group level, headed by the CFO, ensures a consistent approach to sustainability reporting across the Company, and follows up on our sustainability goals and KPIs in the same rigid manner as the financial targets. The CFO reports to the Board of Directors on progress for our common sustainability focus areas on a regular basis.



Code of Conduct

Our policies on practices regarding ethical business, employment and labor, 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

guidelines¹⁾, 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

¹⁾ The international conventions and guidelines referred to here are the UN Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, the eight ILO Core Conventions (Nos. 29, 87, 98, 100, 105, 111, 138 and 182), and the OECD Guidelines for Multinational Corporations.

www.swedishmatch.com

More information is available on the Company website www.swedishmatch.com/Code-of-Conduct.

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Our value chain

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 products.

FOCUS AREAS



Improve public health



Ensure ethical business practices



Reduce environmental impact



Human rights in our supply chain



Equal opportunity

1

FARMS / FORESTRY / RAW 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.

2

SUPPLIER



For raw tobacco the Company sources from major international suppliers. The top six of these suppliers account for more than 90 percent of the total raw tobacco purchased annually. These suppliers have local entities which contract individual farmers seasonally. For direct material other than raw tobacco, Swedish Match source from a wide range of suppliers and regions, the majority of which are located in the US and Europe.

3

FACTORY / WAREHOUSE / OFFICE



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 Company's head office is located in Stockholm, Sweden.

4

TRANSPORT / DISTRIBUTION



For the Swedish and 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 parties. Lights products utilize a wide network of distributors, worldwide.

5

CUSTOMER



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.

6

CONSUMER



Our products are intended for adult consumers only. A large part of our smokefree consumer base seek less harmful, discreet and enjoyable alternative to cigarettes.

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.

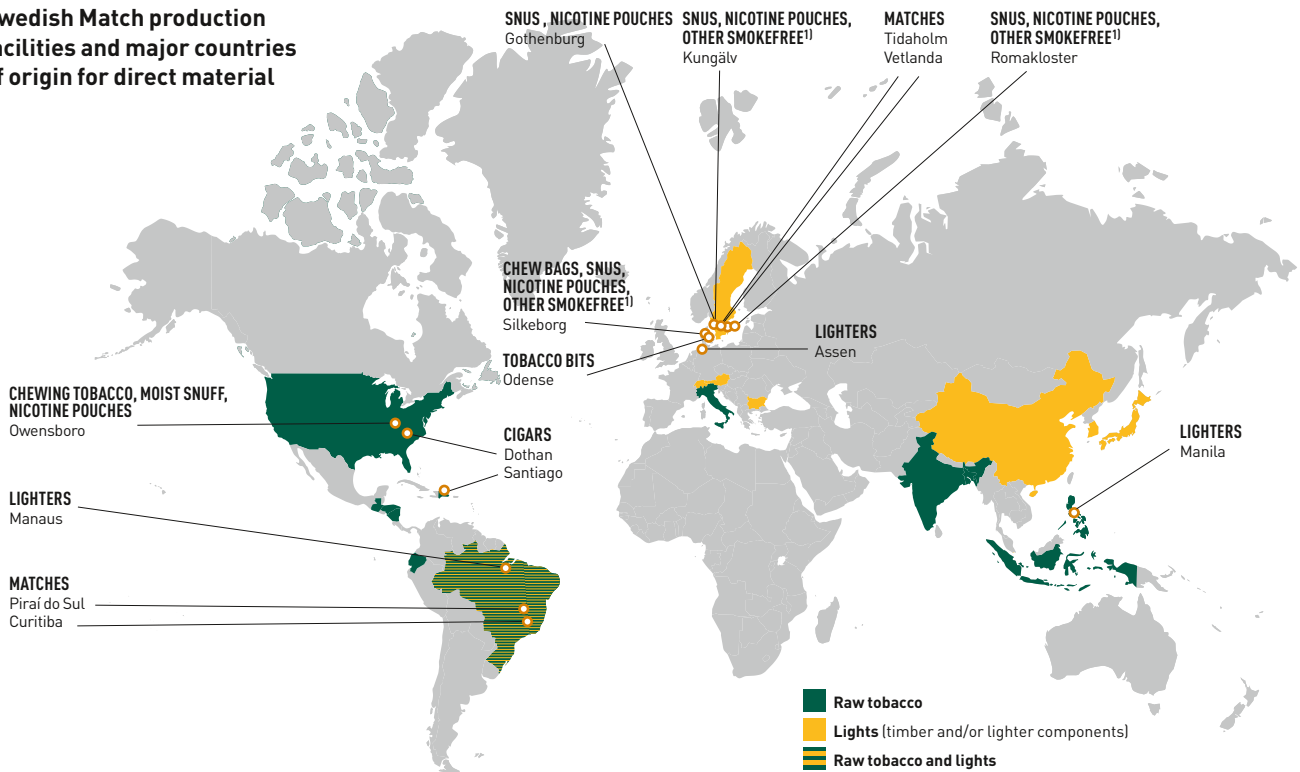


Permits and obligatory reporting

All plants satisfy the requirements of their permits. 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 as well as skilllets that are used for 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

Raw tobacco

Swedish Match does not own tobacco plantations. The Company sources raw tobacco from major tobacco suppliers who source from 23 countries for Swedish Match products. Eleven of these countries (pictured in map above) account for close to 85 percent of Swedish Match's raw tobacco purchases. The largest sources come from India, Indonesia, and the US. With the GOTHIA TEK® quality standard for snus, testing of the tobacco takes place at several stages of the value chain, including the 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 suppliers.

Timber

Timber for our match production is sourced locally, close to our factories in Sweden and Brazil. Nearly all of the timber for production of matches in Brazil is grown in Swedish Match's own plantations. Our plantations consist of

roughly 4,500 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 Austria, China, and Switzerland.

Core values



Quality standards

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



Sustainable Tobacco Program (STP)

The STP is an industry-wide initiative, jointly developed by tobacco manufacturers and experts in this type of program development, to drive standards in agricultural practices as well as environmental management and key social and human rights areas. Through industry leverage the program delivers impact and continuous improvement in the tobacco supply chain.

Why we perform due diligence through STP

Swedish Match sources tobacco through major international suppliers, which contracts individual farmers seasonally. We have estimated that approximately 15,000 farmers scattered across the world are growing tobacco used in our smokefree products. With the industry sharing most of the tobacco growing markets and by working together within the industry in a non-competitive manner, we can use our joint leverage to drive social and environmental impact. The joint leverage helps the suppliers to focus on continuous improvement of their own sustainable practices rather than put extensive efforts on answering requests from each individual customer. Therefore, the industry collaboration through STP is a key element in our efforts to drive towards our sustainability goals and targets not least in relation towards prevention and mitigation of child labor and other human right risks in our tobacco supply chain. Currently the STP covers nearly all of our tobacco suppliers for smokefree products. For more information on our efforts on human right issues in our supply chain, see pages 55–58.

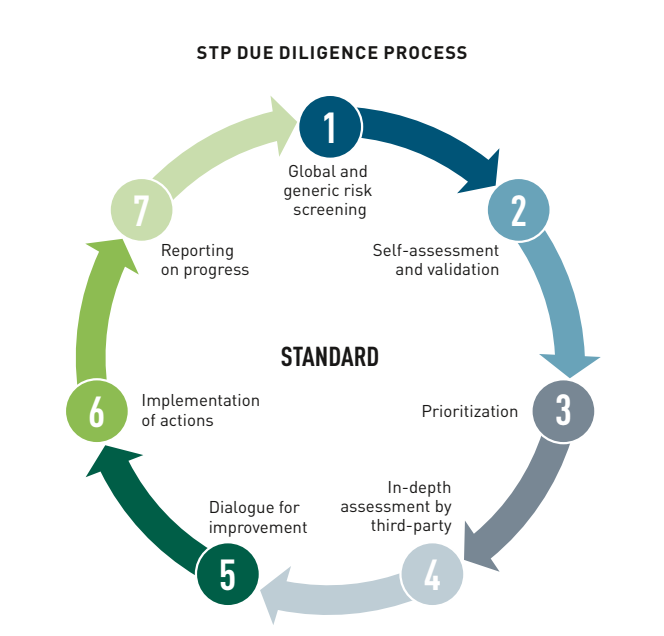
STP is developed in line with relevant UN SDGs as well as global standards, guidelines and reporting frameworks, e.g. WHO, UN Guiding Principles on Business and Human Rights, ECLT Pledge, ILO, GAP US, OECD-FAO and CDP. The program is governed by the STP Steering Committee and managed by the STP Secretariat. The STP Steering Committee consists of representatives from PMI, JTI, BAT/RJ Reynolds, Imperial Brands, Altria and Swedish Match. The STP Secretariat is an external party that holds a secretarial, project management and sustainability expert advisory role.

Evolution of STP

Over the past two years, Swedish Match has been a key contributor in evolving the STP into a new program, with a stronger focus on impact, risk and continuous improvement. The new STP includes a comprehensive risk assessment process to help rank the suppliers and make priorities for further reviews, followed by corrective action plans. Results from the supplier’s risk assessment will be available directly in a digital system to enable consolidation, benchmark and management throughout the process.

The new STP addresses eight common industry priority themes: Governance, Crop, Climate change, Human and labor rights, Livelihoods, Natural habitat, Soil health and Water. An industry guidance is defined for each theme, with specific goals and indicators to measure impact and track progress.

The program was launched during the fourth quarter in 2020 and participating suppliers of tobacco leaf have been invited to answer theme-specific questionnaires. The first self-assessment cycle is expected to be completed during 2021. Future reviews will be done annually and based on the crop cycle. The aim of the first 3-year cycle is to perform third-party assessments on the subsidiaries of our suppliers that are located in geographies where there is an elevated risk of non-compliance with the high standard set by STP for each theme.





IMPROVE PUBLIC HEALTH

OUR COMMITMENT

Swedish Match’s vision is of 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 and safer sources of nicotine for recreational use (such as Swedish snus and other nicotine containing products like ZYN).

- Development and commercialization of nicotine harm reduction products that are attractive to cigarette users and dramatically safer sources of nicotine compared to cigarettes.
- Increased consumer awareness and consumer 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.

www.swedishmatch.com

More information is available on the Company website www.swedishmatch.com/GOTHIAATEK.



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 tobacco¹⁾ 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 70 percent of total Swedish Match sales 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. With nicotine pouches we have taken a step further and have managed to come below the levels that can be detected for almost all of these components – a longstanding aim of Swedish Match. However, it does not matter how much we reduce the risks related to our products if the cigarette consumers do not 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 GOTHIAATEK® quality standard available to our consumers and other relevant stakeholders. The objective of the GOTHIAATEK® 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 detected in ZYN.

Swedish Match conducts only 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.

¹⁾ 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 other parts of the world.



Consumer accessibility

To encourage consumers to switch to reduced risk alternatives, 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 legislators 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.

OUR PROGRESS

HIGHLIGHTS 2020

- Continued rapid growth with ZYN in the US with both increased velocities and broader distribution.
- ZYN introduced in a number of countries in Europe.
- PMTA applications submitted for all ZYN products presently on the US market.
- Danish regulation adopted for nicotine pouches with minimum age requirement (18 years) and restrictions on marketing.
- Significant reduction on snus tax in Norway without corresponding change in the tax on cigarettes.

Progress update

During 2020 we have further increased the relative contribution from our smokefree portfolio to the total Group. Currently our smokefree business accounts for 70.1 percent of total Swedish Match sales of tobacco and nicotine products, up from 67.7 percent in 2019. During 2020 we have continued to focus our efforts to develop and commercialize nicotine products that are safer alternatives compared to cigarettes. In the US, we expanded the availability of both non-flavored and flavored varieties of ZYN, including Smooth, Chill, and Citrus.

We have actively worked towards increasing the consumer reach of our nicotine pouches in both existing and new markets. The total numbers of retailers where Swedish Match nicotine pouch products are available outside Scandinavia increased from around 80,000 stores in 2019 to more than 110,000 stores in 2020. Following the success of our national rollout of ZYN in the US, Swedish Match further expanded the availability of ZYN and by the end of 2020, ZYN was available in approximately 100,000 stores. During the year, Swedish Match has also expanded the availability of its nicotine pouch products on a limited scale to a number of countries outside of Scandinavia and US, and by the end of the year, we were present in 18 countries such as Austria, Croatia, the Czech Republic, Estonia, Iceland, Latvia, Poland, Slovenia, Switzerland and the UK.

In 2020 we also continued to invest heavily behind our smokefree products to fuel future growth. Similar to previous years, we have committed more than 90 percent of our capital expenditure to our smokefree portfolio. During the year, we have once again scaled up the investment of ZYN production capacity in the US. Out of our total R&D expenditure, 95 percent was related to smokefree products. We will continue to engage with the scientific community to verify the public health benefits of our products and will continue to be transparent to our stakeholders.



Driven by the efforts mentioned above, we have continued on the journey towards a world without cigarettes. In the combined Swedish and Norwegian market, shipments of Swedish Match smokefree products in relation to cigarette category volumes increased from 74.8 percent in 2019 to 75.3 percent in 2020. In the US market where the cigarette category exceeds 200 billion sticks annually, shipments of Swedish Match smokefree products in relation to cigarette category volumes were up from 1.9 percent in 2019 to 2.6 percent in 2020.

The conversion of cigarette smokers to less hazardous alternatives would be even faster if more smokers are aware of the dramatic difference in the relative risk between smokefree products and cigarettes. Educating consumers on such difference continues to be an important 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, 33 percent believe that snus is at least as dangerous as cigarettes or answer that they do not know. In Norway the equivalent proportion is 37 percent. Only 20 percent of the Swedish population believe that snus is much less dangerous than cigarettes and in Norway this number is only 18 percent. Thus continuous efforts to further increase consumer awareness will remain a focus going forward.

In March 2020, Swedish Match submitted PMTA applications for all its ZYN products presently on the US market and these applications are under scientific review by the FDA. The applications show that almost all harmful and potentially harmful components commonly associated with tobacco products have been reduced below detection levels. Further, the consumer studies presented in the applications show that there is little interest in the ZYN products among consumers who are not tobacco consumers and that there is a large potential to attract existing tobacco users to the products. In October 2019, the FDA granted Swedish Match an order designating our General snus products sold in the US as Modified Risk Tobacco Products (MRTP). During 2020, Swedish Match has finalized the post market surveillance program mandated in the MRTP decision after comments from the FDA. Swedish Match is now able to use the approved message of reduced risk of snus compared to cigarettes in its consumer communication.

The most important goal of Swedish Match regulatory efforts in Europe is to initiate regulation for nicotine pouches and we have seen some examples of traction in this respect during the year. Specific legislation should be implemented in order to ensure age limits, appropriate marketing restrictions and product standards to ensure consumer protection. During the year Swedish Match has had regulatory contact in a number of EU countries and some progress has been made. Already in 2016, Swedish Match contacted the responsible minister in Sweden, alerting the Swedish government that nicotine pouches are not covered by Swedish tobacco legislation and that the products could therefore be legally sold to minors. We have also pointed out that there are no specific marketing restrictions and no product regulations to ensure the safety profile of the products. During 2020, the Swedish government has finally commissioned a Public Inquiry to propose appropriate legislation for nicotine pouches. The proposal is anticipated to

be released in March 2021. In the meantime, Swedish Match has continued to work actively with its retail customers to ensure that nicotine pouches are not sold to minors. In Denmark, specific regulation for nicotine pouches was passed by the Parliament in December. This means that age restrictions and restrictions on marketing for these products will be implemented in 2021. In the Czech Republic progress was made on a proposal on regulation of nicotine pouches in the Parliament. The proposal has passed a third reading and could be finalized in the first half of 2021. Swedish Match has also contacted regulators in a number of other EU countries alerting them of the regulatory situation for nicotine pouches. In a few of these countries, regulators have expressed an active interest in regulation of nicotine pouches.

Another objective of Swedish Match is that tobacco taxation should be based on relative risk of the different product categories. In December 2020, the Norwegian parliament passed the budget for 2021. The budget contains a significant reduction in tax on snus without a corresponding decrease of the cigarette tax. This is anticipated to further fuel the Norwegian trend of consumer migration from cigarettes to snus thus benefitting public health.

Consumer reach ¹⁾ (thousands of stores)	2020	2019	2018
Number of retailers where Swedish Match nicotine pouches are available outside Scandinavia ²⁾	116	79	15

¹⁾ Based on number of retailers for nicotine pouches in the US and other markets (excluding Germany).

²⁾ The information on retailers is based on distributor data and Swedish Match estimates by the end of each year.

Swedish Match's smokefree products ¹⁾ as a share of its total tobacco/nicotine products, %	2020	2019	2018
Volumes ²⁾	83.0	83.5	82.3
Net sales	70.1	67.7	65.8
Capital expenditure including acquisitions ³⁾	93.1	92.1	96.5
R&D cost	95.3	95.8	96.3

¹⁾ Smokefree consists of snus, nicotine pouches, moist snuff and chewing tobacco.

²⁾ All volumes are converted to portion equivalent.

³⁾ 2018 includes acquisitions related to Gotlandsnus and Oliver Twist.

Swedish Match smokefree volumes ¹⁾ relative to the cigarette category by market, %	2020	2019	2018
Sweden and Norway combined ²⁾	75.3	74.8	71.0
US ³⁾	2.6	1.9	1.5

¹⁾ Based on Swedish Match shipment volumes. All volumes are converted to can equivalent.

²⁾ Cigarette volumes in Sweden is based on distribution data and volumes in Norway is based on data from the tax authorities.

³⁾ US cigarette volumes based on data provided by Bank of America (BoFA).

Going forward:

- Continued efforts to develop and commercialize nicotine harm reduction products.
- Continued expansion of nicotine pouches both within and outside our existing markets.
- Continued efforts to promote regulation for nicotine pouches in Europe to ensure consumer protection.
- Continued efforts to increase understanding among regulators of the role that snus and nicotine pouches can play in improving public health.



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. We are committed to comply with all laws and regulations, and where we deem appropriate, to maintain a higher standard than required, 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, retail customers, and consumers.

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.

- Ethical business practice fully embraced and integrated into our corporate culture.
- Zero level of incidents rooted in non-ethical business behavior.
- Responsible marketing with 100 percent compliance with our policy to exclusively market to adult consumers.

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 of Conduct, 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 relevant 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. 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

More information is available on the Company website 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. E-learning on anti-money laundering is required for relevant 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 employees with the opportunity to report suspicion of non-compliance with the Code of Conduct to the Chairman of the Audit Committee when applicable. 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.

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 guidelines¹⁾. The Supplier Code of Conduct forms the basis for our relationship with suppliers and is an integral part of most of our significant business agreements.

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 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 with regard to sustainability.

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More information is available on the Company website www.swedishmatch.com/Code-of-Conduct.

“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

Responsible marketing

Swedish Match is committed to marketing our products responsibly, in compliance with applicable laws and regulations or high ethical standards if no such regulation is in place. For tobacco and nicotine containing products, we have an “Adult only policy” which means that we shall not direct any marketing of tobacco and other nicotine containing products to persons under the age of 18 (or the legal tobacco age in those areas where the legal age is over 18).

In relation to the innovative and emerging category tobacco-free nicotine pouches, which unlike e.g. tobacco products can fall outside the scope of sector specific legislation, Swedish Match is supporting and complying with initiatives for transparent and responsible self-regulation within the scope of industry agreements. We also provide clear information to the consumers about the health effects of our nicotine products and that the products are only intended for adults.

We have in place, and continuously improve, internal routines and processes in order to ensure legally compliant and responsible marketing. Our marketing material in general, and that relating to our tobacco and nicotine containing products in particular, is subject to strict internal approval procedures. Training of our employees and close cooperation between different internal functions are key elements. To implement our standards and to prevent the underage use of nicotine containing products, we are also committed to educating, informing and cooperating with retailers, distributors and public officials.

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



OUR PROGRESS

HIGHLIGHTS 2020

- Tailored-made training sessions in the working-at-home environment featuring several important topics included in the Code of Conduct.
- Launch of Distributor Code of Conduct, applicable in markets identified as higher risk areas from a business ethics perspective.
- The Code of Conduct was updated with clarifying language and additional examples of the Company's values and ethical standards.
- The Company policy framework was revised and updated to reflect current requirements on compliance throughout the Group.
- Swedish Match terminated an agreement with one of its suppliers due to findings of non-compliance with the Supplier Code of Conduct.

Progress update

To further ensure that our ethical business practice is fully embraced in our operations, as of October 2020 all consultants on contracts with a duration of more than three months are required to complete the training on the Code of Conduct and other relevant e-learning. This expanded coverage resulted in the share of employees that had completed the training being flat at 97 percent in 2020. Reaching 100 percent will continue to be a high priority during 2021.

Eight Code of Conduct concerns have been raised and evaluated in 2020. Some of these issues required actions and that new routines be put in place, while others were found unsubstantiated and required no further actions.

Continued efforts have been made to raise awareness among relevant employees on critical topics which for instance increased participation in the trainings compared to 2019. In the past four years, Swedish Match did not incur any fines or settlements related to anti-competitive practices nor was involved in any ongoing investigations. Regarding corruption and bribery, the Company is currently not involved in any ongoing cases and has not had any confirmed cases in the past four years.

In 2020, Swedish Match has ensured that all of the Company's significant suppliers of direct material have committed to the principles of Swedish Match Supplier Code of Conduct. All suppliers of raw tobacco are included and each is viewed as an individual supplier per country. The suppliers have either signed our Supplier Code of Conduct or have their own Codes of Conduct and mechanisms which are broadly similar to our Supplier Code of Conduct.

Ethical business practices	2020	2019	2018
Share of employees that have completed training on our Code of Conduct ¹ , %	97	97	96
Number of Code of Conduct concerns raised and evaluated	8	20	22
Share of relevant employees that have completed fair competition e-learning, %	95	90	80
Share of relevant employees that have completed training on anti-corruption, %	95	84 ²	90
Share of relevant employees that have completed training on GDPR, %	95	82	79
Share of relevant employees that have completed training on anti-money laundering, %	97	81	N/A
Share of significant suppliers ³ of direct material committed to the principles of Swedish Match Supplier Code of Conduct, %	100	99	98

¹ 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. As of October 2020, consultants on contracts with a duration of over three months are included in the figure.

² Decrease due to expanded coverage of relevant employees.

³ A significant supplier of direct material is defined as a supplier with which Swedish Match has a significant level of spending. All suppliers of raw tobacco are included and each is viewed as an individual supplier per country.

Going forward:

- Continued focus on awareness of different parts of the Code of Conduct throughout the organization; tailor-made education and trainings, information on Intranet and other internal communication channels.
- 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.



REDUCE ENVIRONMENTAL IMPACT

OUR COMMITMENT

We commit to doing our part in line with the Paris Agreement, supported by science-based targets for our business' value chain. We work continuously and systematically to assess our internal processes, increase our efficiency and reduce the impact that we have on the environment.



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

OUR GOAL

Our goal is to limit our environment footprint while growing our business. We are committed to reducing our greenhouse gas (GHG) emissions and waste along our value chain from sourcing to our own operations and continuing through consumer use.

- Reduce GHG emissions by 41 percent by 2030 and by 75 percent by 2050, with 2017 as the base year, in our whole value chain (Scopes 1, 2 and 3).
- To reach our goal by 2030 and 2050, we are committed to reducing GHG emissions by 5 percent per year.
- Reduce total waste per unit of sales and aim to keep hazardous waste at the absolute minimum.
- Increase our efforts to prevent post-consumer waste.

OUR APPROACH

Addressing climate change in a science-based manner

We have developed an emission reduction strategy in a science-based manner. Our climate targets were set through the Science Based Targets initiative (SBTi) and approved in March 2019. The targets are in line with the level of decarbonization required to keep the rise in global temperature below 2°C compared to preindustrial levels¹. In this process we have been guided by the methodology of the Sectoral Decarbonization Approach (Other Industry²) pathway and made use of the associated calculation tool to form a basis for our decision.

The Sectoral Decarbonization Approach (SDA) is a scientifically informed method for companies to set GHG reduction targets necessary to stay below a 2°C temperature rise compared to preindustrial levels. The method is based on the 2°C scenario, one of the International Energy Agency's detailed CO₂ sector scenarios modeled in their 2014 Energy Technology Perspectives report (IEA 450 scenario). The Energy Technology Perspectives report's budget is consistent with the representative concentration pathway 2.6 (RCP2.6) scenario from the IPCC's Fifth Assessment Report, which gives the highest likelihood of staying within the global target temperature of less than 2°C in the year 2100. All six GHGs covered by the Kyoto Protocol³ are included in our calculations, where assumptions and emission factors have followed a conservative approach.

Our climate targets were set by the Group Management Team and approved by the Swedish Match AB's Board of Directors. Each division president is responsible for achieving the target for its respective division, in line with the ambition set under the SBTi. This organizational approach ensures that targets are integrated into normal business operations and review processes, and continuously followed-up upon. To further reinforce our commitment to our targets, as of 2020 we have added an additional performance metric based on our GHG reduction ambition to our Long Term Incentive plan for senior management.

Accounting for GHG emissions in our value chain⁴

We report GHG emissions from our own facilities (Scope 1 direct emissions), emissions from 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 Protocol⁵.

Continuous efforts have been made to enhance our accuracy in the GHG accounting by engaging with business partners. Where supplier specific emission factors are not available, latest generic emission factors have been used to calculate emissions.

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

² 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.

³ IPCC Fourth Assessment Report.

⁴ 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.

⁵ International standard for calculating and reporting climate impact from business activities.



Supplier engagement

Emissions from our upstream activities comprised more than 60 percent of our total carbon footprint. We recognize the importance of engaging with our suppliers in the journey to achieve our ambitious climate target and constantly leverage our purchasing power to find further potential for reduction. The sustainability performance from suppliers is an important criterion in our vendor selection process.

Addressing waste and littering from our products

By integrating sustainable practices for our products, from development to end-of-use, we can lower the environmental and social impacts, as well as cost. We aim to reduce total waste per unit of sales at our operations and keep hazardous waste to an absolute minimum. We continuously work to reduce the use of packaging material and other materials associated with our products and explore the possibilities to use recycled materials where permitted in the local legislation. We also work actively towards increasing the recyclability of consumer packaging materials at the end of their product life and collaborate with our business partners in local markets to raise consumer awareness and implement littering prevention initiatives.

Environmental Management System

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 acquired¹⁾ since 2017.

All facilities satisfied the environmental requirements of their permits during 2020. For more information on permits, see page 42.

CDP

Swedish Match annually reports information on our climate governance, identified climate risks and opportunities as well as detailed climate data to CDP²⁾. By reporting to CDP, our stakeholders are provided with more information about Swedish Match's initiatives and progress.

¹⁾ Swedish Match Denmark, previously V2 Tobacco, (August 31, 2017), House of Oliver Twist (April 3, 2018), and Gottlandssnus (August 22, 2018).

²⁾ 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.

HIGHLIGHTS 2020

Reduction of GHG emissions:

- The manufacturing facilities, in both Gothenburg and Kungälv (Sweden), are now fossil fuel free production sites.
- Increased the number of factories that fully or partly rely on "Green" electricity.
- Lower climate footprint from the plastics used in packaging for our smokefree products in Europe driven by supplier's GHG reduction initiatives.
- Europe Division has resized cans for the XR snus range to be somewhat smaller, while maintaining the same number of portions per can, leading to an annual reduction of 13 percent or 50 tons of plastics for the product range.
- Close to 100 percent of total cigar consumer packaging converted to film with lower aluminum content.
- Important tobacco supplier for cigars has successfully implemented GHG reduction initiatives and consequently, after a third party verification, we have lowered our emission factor for cigar tobacco.
- Launch of *Cricket Eco*, the first lighter body in the world made from 100 percent recycled nylon.
- Our CDP score¹⁾ improved for the third year in a row, reaching a "B" rating in 2020.

¹⁾ CDP: <https://www.cdp.net/en/scores>

²⁾ DLF and Livsmedelsföretagen are two trade organizations for companies that produce or import goods for resale in grocery retailers and other food service markets in Sweden.

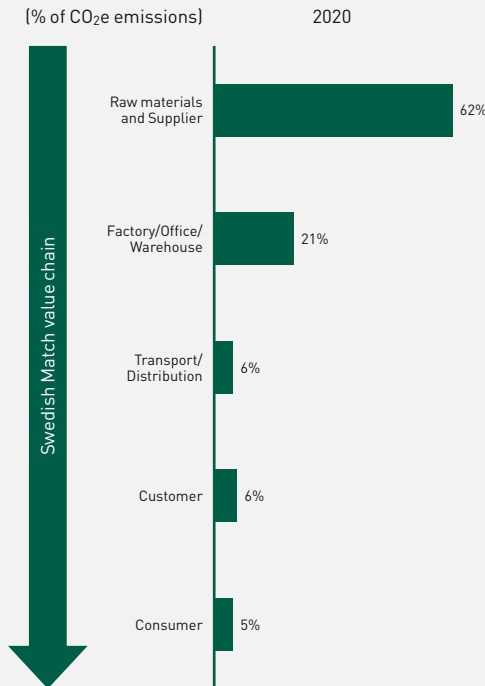
Reduction of waste and littering prevention:

- Europe Division has ceased the use of non-recyclable black snus cans for products sold in Scandinavia.
- Europe Division has collaborated with two leading cross-industry organizations (DLF and Livsmedelsföretagen²⁾) in their commitment to increasing recyclability of packaging and driving a more sustainable practice in the fast consumer goods industry in Sweden.
- Panta Dosan, a recycling initiative for snus cans, has been launched in Sweden and Norway in collaboration with Stiftelsen Håll Sverige Rent (The Keep Sweden Tidy Foundation) and Hold Norge Rent (Keep Norway Beautiful).
- Europe Division, in collaboration with Hold Norge Rent (Keep Norway Beautiful), has adopted a natural reserve in Norway with the commitment to clean the area three times per year.
- US Division has made a shift from waste to landfill to incineration of waste for power production in the Dothan facility.
- With our brand *General*, the US Division partnered with the outdoor protection agency Leave No Trace and implemented The Trailkeepers Project to protect state and national parks.



OUR PROGRESS

Climate footprint at each stage of Swedish Match's value chain



Example of initiatives to reduce environmental impact of our business

Active engagement with key suppliers (plastic, tobacco and nylon) to review and improve our climate footprint.	Close to 100 percent of total cigar consumer packaging converted to film with lower aluminum content.	Introduction of recycled nylon in the facilities in Assen and Manila.
Fossil fuel free production for our two largest smokefree manufacturing facilities in Sweden.	Green electricity employed 100 percent in our lighter facility in Assen and 20 percent in Manila.	Shift from waste to landfill to incineration of waste for power production in the Dothan facility.
Benchmark and optimization of freight transportation efficiency in the US.	Continued improvement from eco driving system for fleet of vehicles used in our logistic businesses.	
Work with customers to improve the energy efficiency for snus chillers in shops in Sweden.	Reuse of cartons in shipments to customers.	
Elimination of non-recyclable black plastic cans for our snus range sold in Scandinavia.	Collaboration with our partners in Sweden and Norway to raise consumer awareness regarding littering issues.	

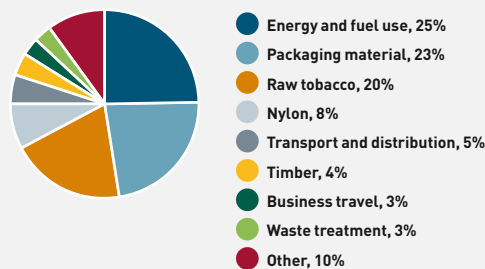
GHG emissions from Swedish Match's main products per unit of production (gram CO₂e)¹¹

	2020	2019	2018
US smokefree	205	256	270
Scandinavia and other markets smokefree	93	107	107
Cigars	24	28	30
Lighters	84	100	99
Matches	28	33	29

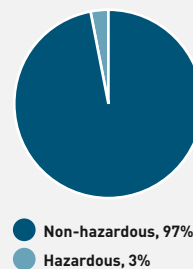
Waste from Swedish Match's main products per unit of production (gram)¹¹

	2020	2019	2018
US smokefree	12.0	12.7	13.9
Scandinavia and other markets smokefree	7.1	7.2	7.2
Cigars	1.0	1.2	1.1
Lighters	0.8	0.9	0.8
Matches	18.1	17.8	17.6

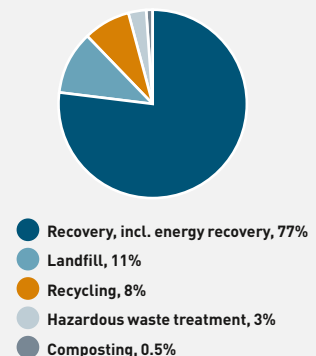
2020 GHG EMISSIONS BY SOURCE



2020 WASTE BY TYPE



2020 WASTE BY TREATMENT METHOD



¹¹ Unit of production is based on one can or can equivalent for snus, nicotine pouches, moist snuff, chew bags and tobacco bits, one 3 ounce portion of US chewing tobacco, one cigar, one lighter or equivalent and one match box.



Progress update

Reduction of GHG emissions

Swedish Match's direct emissions (Scope 1) and indirect emissions (Scope 2) account for only 17 percent of the total GHG emissions. The remaining 83 percent includes emissions from upstream and downstream (Scope 3) activities identified as relevant to our value chain. The GHG emissions across the value chain amount to 183,452 tons CO2-equivalents (CO2e) for the year 2020. While delivering an impressive volume growth in our business, we managed to reduce our total emissions by 7 percent versus 2019. Measured per unit of net sales in constant currency terms, our emission reduction was even more pronounced, a 21 percent decrease versus 2019. This was achieved by reductions from both our operations and our upstream activities, coupled with reduced travel and transportation due to COVID-19 restrictions.

Our Scope 1 and Scope 2 emissions have decreased by 2 percent despite the significant growth of US business, where currently most of the energy is sourced from natural gas. In 2020 we increased our pace of shifting towards renewable energy sources for our factories and offices, from 44 percent of fossil-free energy in 2019 to 49 percent in 2020. During the year our factory in Kungälv shifted to 100 percent biogas and green electricity, and we have also increased the share of green electricity used in our lighter facilities in Assen (100 percent) and Manila (20 percent). It remains challenging to increase the use of renewable energy in the US which is located in areas where coal is the dominant source of electricity. During the capacity expansion in Owensboro, we have improved the energy efficiency in our operations with for instance installing more energy-saving machinery, leading to 25 percent reduction in energy use per unit of production in the factory.

Total Scope 3 emissions have decreased by 8 percent year over year attributable to engagements with key suppliers to review and improve their carbon footprint, as well as continued shift to low carbon alternatives for raw materials. A large part of the Scope 3 emissions stem from the extraction and production of raw materials, e. g. raw tobacco, timber and nylon, as well as consumer packaging. For raw tobacco, a majority of what we purchase is sun cured or air cured, a process that leads to lower greenhouse gas emissions from the process of curing tobacco. During the year our major tobacco supplier for cigars has successfully implemented GHG reduction

initiatives and consequently, after a third party verification, we have lowered our emission factor. For the packaging materials, we have increased the total amount of packaging due to the increased plastic use following the nicotine pouch expansion in the US. However, the average emission per ton of packaging has declined year over year, driven by our continued shift towards low carbon alternatives. Aluminum film, one of the most carbon-intensive packaging materials used in our products, has been removed almost completely from our cigar consumer packaging by the end of 2020. During the year we have also engaged with a key supplier of polypropylene for cans sold in Europe, leading to the use of a plastic with a lower carbon footprint. This is driven by the supplier's initiatives primarily related to shift of energy sources and use of low carbon intensive raw materials. For the nylon use in our lighter operations, we have switched to a nylon supplier with more sustainable practices and introduced the Cricket Eco with 100 percent recycled nylon, leading to more than 75 percent reduction in carbon footprint compared with lighters made from virgin nylon.

Reduction of waste and littering prevention

Total waste in our operations has increased by 4 percent compared to 2019 due to higher production volumes in the US business. Measured per unit of net sales in local currency terms, our waste was reduced by 12 percent, and 97 percent of total Group waste is classified as non-hazardous. The total hazardous waste generated has decreased year over year driven by improved efficiency in the nicotine pouch production in the Owensboro facility in the US. Recovery, including energy recovery, remains a main waste treatment method, covering 77 percent of total waste. Waste to landfill decreased by 18 percent, largely driven by a shift to incineration of waste for power production in the US.

In addition to continuous efforts to reduce the waste from our own operations, we also implemented different initiatives to address the issue of post-consumer waste from our products. We have ceased the use of black plastic cans for our snus range sold in Scandinavia, eliminating more than 800 tons of non-recyclable plastics annually. We also partnered with organizations in Sweden and Norway to provide infrastructure to further enable recycling and raise consumer awareness regarding littering issues.



Biobed at our factory in Kungälv, Sweden.



Greenhouse gas emissions (metric tons CO ₂ e)	2020	2019 ¹⁾	2018 ¹⁾
Scope 1 + Scope 2	30,928	31,597	31,178
Scope 3	152,523	165,901	168,103
Total emissions	183,452	197,497	199,281
Percent change total emissions	-7	-1	0
Total emissions per MSEK sales²⁾	11	14	16
Percent change per MSEK sales	-21	-9	-8

¹⁾ Figures restated due to refined data collection.

²⁾ Net sales from product segments in constant currency terms.

Energy use in our own operations (MWh)	2020	2019 ¹⁾	2018 ¹⁾
Direct energy use	89,958	88,768	87,240
Indirect energy use	90,327	89,657	89,697
Total energy use	180,284	178,424	176,938
Total energy use per MSEK sales²⁾	11	13	14
Percent of fossil free energy	49	44	44

¹⁾ Figures restated due to refined data collection.

²⁾ Net sales from product segments in constant currency terms.

Total packaging material (metric tons)	2020	2019	2018
Plastics	7,761	6,357	5,511
Paper	12,560	12,073	12,567
Metalized film	2,105	1,623	672
Metal	770	835	839
Aluminium film	17	447	1,501
Total packaging material	23,213	21,335	21,090
Total packaging material per MSEK sales¹⁾	1.4	1.5	1.6
Percent change per MSEK sales	-7	-7	-10

¹⁾ Net sales from product segments in constant currency terms.

Total waste (metric tons)	2020	2019 ¹⁾	2018 ¹⁾
Non-hazardous waste	25,799	24,895	26,895
Hazardous waste	776	780	588
Total waste	26,575	25,675	27,483
Total waste per MSEK sales²⁾	1.6	1.8	2.1
Percent change per MSEK sales	-12	-14	-11

¹⁾ Figures restated due to refined data collection.

²⁾ Net sales from product segments in constant currency terms.

Post-consumer waste	2020 ¹⁾
Number of anti-littering initiatives	2
Number of organizations/partners engaged in anti-littering initiatives	4

¹⁾ The initiatives accounted for in 2020 were our initiative with Panta Dosan and our commitment to clean a natural reserve in Norway. Organizations that Swedish Match engaged with were: DLF, Livsmedelsföretagen, Stiftelsen Håll Sverige Rent (The Keep Sweden Tidy Foundation) and Hold Norge Rent (Keep Norway Beautiful).

Going forward:

- Continued engagement with key suppliers of raw materials to further improve our GHG accounting visibility and to better guide our emission reduction efforts in the upstream activities.
- Actively seek new opportunities to reduce our climate footprint with regards to plastic use for consumer packaging.
- Continued initiatives to facilitate recycling of plastic snus cans.
- Implementation of a strategy focusing on energy efficiency and reduced use of refrigerant for chillers at customers in Sweden.
- Continued rollout of *Cricket* Eco with 100 percent recycled nylon in the lighter markets.
- Continued optimization of freight transportation efficiency in the US.
- Continued shift to fossil free energy sources for heating in our factories and offices.
- Continuous improvement of procurement and production efficiency.



HUMAN RIGHTS IN OUR SUPPLY CHAIN

OUR COMMITMENT

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 from which we source materials.

Elimination of child labor is the center of focus in our efforts. We respect 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 supply chain.

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 and other human rights violations in the Company's supply chain.

- Robust systems to identify, prevent and mitigate child labor and any other human right related issues in our entire supply chain.
- 100 percent child labor free tobacco.
- 100 percent of our raw tobacco suppliers covered by STP or Swedish Match's due diligence program.

OUR APPROACH

Assessing risk related to human rights in our supply chain

We adopt a systematic approach to assess the risk related to business integrity and human rights in our value chain. The assessment is based on a combination of industry risk¹⁾ and country of origin. Out of our 118 significant suppliers²⁾ of direct material, a total of 60 suppliers present heightened risks for human rights violations given their industry or country of origin. The majority of them are suppliers of raw tobacco, which are viewed as individual suppliers per country. More than 80 percent of these raw tobacco suppliers are subsidiaries belonging to one of the international tobacco companies.

With tobacco being an agricultural product, there is a known risk of human right violation in the supply chain especially related to child labor. According to the International Labor Organization, ILO, approximately 152 million children are involved in child labor worldwide; more than 70 percent of these children are found in agriculture. The risk of child labor lies within the contracted farmers that grow raw tobacco. The issue of child labor is extensive and complex; it requires commitment from us as well as from farmers and suppliers that have direct contact with farmers, other suppliers, governments and other manufacturers.

The due diligence for our supply chain

We have adopted two different approaches to due diligence in our supply chain. For direct materials other than raw tobacco and for tobacco used in wrapper for our cigars we rely on our own due diligence programs to monitor adherence to our Supplier Code of Conduct. The supply chain for tobacco for our smokefree products and for cigar filler is more complex and requires a different approach. We purchase this tobacco from international tobacco suppliers who in their turn purchase the tobacco from a large number of farmers. We estimate that every year approximately 15,000 farmers are involved in growing tobacco for our smokefree products. Most of these farms are located in developing countries. They are often small, and family owned and crops are rotated between tobacco and other agricultural products. To reach and monitor these farmers in terms of human rights impact and sustainable agriculture we have contributed to the creation of the industry-wide Sustainable Tobacco Program (STP). The cornerstones of this program are our supplier's commitment to certain agreed themes related to basic human rights and sustainable agriculture and the large number of farm visits conducted by our suppliers' field technicians. These field technicians visit and audit farmers for labor practice standards and crop quality, often several times per year. If a field technician finds a practice inconsistent with the supplier's standards, the corresponding actions are taken from training to contract cancellation or non-renewal. We audit the suppliers' efforts with the help of third parties through the STP system. See page 43 for more information on the STP background and involvement.

¹⁾ Classification of risk has been done based on geographical location and the Corruption Perception Index of Transparency International (CPI), cross-referenced with Maplecroft's Human Rights Index and complemented with specific industry-related risk of human and labor rights violations.

²⁾ A significant supplier of direct material is defined as a supplier with which Swedish Match has a significant level of spending. All suppliers of raw tobacco are included and are viewed as individual suppliers per country.



Smokefree tobacco supply chain

The STP program covers nearly all of our tobacco suppliers for smokefree products.

The Human and labor rights theme in the new STP, together with the Livelihoods theme, addresses components which are fundamental to the well-being of people involved with the production of tobacco. Topics under assessment and review include child labor, fair treatment, freedom of association, income, work hours and benefits, modern slavery, and safe working environment.

These themes align with the United Nations Guiding Principles on Business and Human Rights and contributes to six UN Sustainable Development Goals.¹⁾ The due diligence cycle under the new STP is described as below.

¹⁾ UN Sustainable Development Goals: Goal 1: No poverty; Goal 2: Zero hunger; Goal 5: Gender equality; Goal 8: Decent work and economic growth; Goal 10: Reduce inequalities; and Goal 16: Peace, justice and strong institutions.

Stages	Participants	Description
Global, generic risk screening	Independent STP Secretariat	An industry-common process stage to identify what the generic risks (and possible opportunities) are and where (country specific results) the risks are the highest.
Self-assessment and validation	All suppliers; Independent STP Secretariat	An industry-common process stage for all suppliers to perform self-assessment on an annual basis. Suppliers are asked to specify their commitment and procedures ¹⁾ and report quantitative measures to show impact. The self-assessment results are then validated by the STP Secretariat.
Prioritization	Independent STP Secretariat; Manufacturers	Based on the generic risk screening and self-assessment validation results, a list of prioritized countries, suppliers and tobacco types is identified and subject to in-depth assessment.
In-depth assessment by third party	Prioritized suppliers; Independent assessor	The in-depth assessment is performed by a third party with subject expertise. This forms the basis for the consecutive stages in the STP process.
Dialogue for improvement	Prioritized suppliers; Independent assessor; Manufacturers; Independent STP Secretariat	The STP platform delivers a standardized format for dialogue to promote synergies among stakeholders. This dialogue renders an impact oriented action plan aiming for improvement as well as effective results in measured KPIs set in the STP standard.
Implementation of actions	Prioritized suppliers; Manufacturers	A standardized log format is set to facilitate communication on progress. The results of this process stage provide input into the next cycle and show effective results in measured KPIs set in the STP standard.

¹⁾ Procedures include farm monitoring, extreme breach procedure, prompt action issues procedure and grievance mechanisms and impact assessments.

Cigar tobacco supply chain

For the tobacco used as wrapper for our cigars, we source from a limited number of suppliers and farms. The largest supplier accounts for more than 90 percent of total purchases and the locations of the farms are more concentrated than our smokefree raw tobacco farms. Thus, we believe it is more efficient to run our own due diligence program, the Cigar Leaf Audit Program. Nearly all of our cigar leaf tobacco volumes are monitored through this program.

The Cigar Leaf Audit Program is founded on Swedish Match's sustainability focus areas which are mapped to relevant principles and criteria used within the STP. The continuity of compliance with the requirements in the program is verified annually by requiring suppliers to complete a self-assessment as well as providing supporting evidence to answers provided. The self-assessment covers Swedish Match's sustainability focus areas. Documentation is reviewed and opportunities and non-conformances detected will be added to the supplier's risk reduction plan and followed up in

dialogue with the supplier, on site, to define necessary actions going forward.

For the tobacco used in the body of our cigars as filler, we source from one global supplier, with farms located all over the world. We believe we can deliver more impact through industry leverage when performing the due diligence, and our tobacco filler supplier is thus required to participate in STP.

Direct material other than raw tobacco

Swedish Match sources direct material other than raw tobacco from a wide range of suppliers and regions. The majority of our significant suppliers are located in the US and Europe. The due diligence primarily covers tier one suppliers¹⁾. The tier one suppliers are continuously screened for compliance and risk in relation to ethical business practices, employment and labor practices, including child labor. In addition to this, we encourage our suppliers to develop their own supplier standards and monitoring procedures.

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



Our risk assessment of current and future suppliers combines both industry risk and country risk. The suppliers classified as high-risk are suppliers of lighter components or finished products primarily sourced from Asia.

All of the high risk suppliers are required to perform a self assessment. Based on the assessment results, further dialogues are initiated. Third party audits are conducted on suppliers based on their risk score and cover ethical business practices, employment

and labor practices. The audit generates a report, including a corrective action plan which is followed up by the auditor. Immediate action is taken in case the audit report includes major exceptions on legal and/or regulatory compliance on matters audited.

ECLT Foundation

Swedish Match is a member of and represented on the board of the ECLT Foundation – Eliminating Child Labour in Tobacco Growing Foundation. 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 supported over 920,000 children, farmers and families in the fight against child labor and are currently active in 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 the ECLT Foundation, see www.eclt.org.



The “Let’s PLAY” After School Program

In complement to our due diligence we have supported an after-school program in the Philippines. 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.





OUR PROGRESS

HIGHLIGHTS 2020

- Launch of the new STP – a digital, risk focused and impact-oriented due diligence program.
- While the number of our farm visits and third party audits decreased due to COVID-19, we followed up digitally when possible, and our suppliers continued to conduct their own site-visits in the countries wherever allowed.
- Worked collaboratively with our major cigar raw tobacco supplier to shift the procurement to a country where the risk of violations against human rights is deemed lower.
- Swedish Match terminated an agreement with one of its suppliers due to findings of non-compliance with the Supplier Code of Conduct.
- Continued co-funding of the “Let’s PLAY” After School Program in the Philippines.
- A digital platform implemented Group wide to facilitate the management of our significant and high risk suppliers and third party auditing.

Progress update

Due to travel restrictions following COVID-19, the number of physical farm visits by Swedish Match decreased during 2020 and follow-up visits were conducted digitally when possible. Meanwhile, our suppliers continued to conduct their own site-visits when situations permitted in local markets. For instance, in 2020 one subsidiary of our major supplier alone visited each of their 17,000 farmers in the country where we source tobacco. The supplier also contracted a third party to verify the findings from the own conducted site-visits. The third party assessments covered 10 percent of the farmers and were done through unannounced random visits.

More than 95 percent of our raw tobacco volumes are included in STP or in Swedish Match’s due diligence program. During the two-year development of new STP, the process of self-assessments and third party reviews were paused. The new STP was launched during the fourth quarter in 2020. The first cycle of self-assessment from our suppliers is expected to be completed during 2021. Under the new STP, the human and labor right theme is supported by specific goals and performance indicators, which are based on numeric data collected and consolidated through the technical platform. This will facilitate us to measure and track the progress from our suppliers in a more systematic way as well as to improve the transparency in our future external communication.

For the purchases of raw tobacco for cigars, our primary suppliers have been audited by a third party in 2018 and 2020 within our Cigar Leaf Audit Program. Based on the result, all suppliers audited were provided a risk reduction plan based on non-conformities identified in the audit. Swedish Match conducted follow-up reviews in 2019 and 2020 and dialogue with the suppliers is ongoing. In 2020 verification has been conducted digitally.

In 2020, the ECLT Foundation remained committed to strategic investment and collaborative efforts to support children, farmers and families in areas where tobacco is grown. During the year, ECLT also provided urgent relief funds to raise awareness about COVID-19, provide masks and other needed health supplies, support families, and keep children connected with their studies during school closures.

For the third consecutive year, we co-funded the “Let’s PLAY” After School Program by supporting three elementary schools in selected communities in the Philippines to mitigate the risk of child labor. Despite the outbreak of COVID-19, the overall objectives of the program were met. Assessment of the tobacco industry fight against child labor as well as no incidences of child labor in the areas of the after-school activities during the conduct of the project.

For direct material other than raw tobacco, the number of high risk suppliers increased in 2020 as the identification methodology was refined to reflect a renewed classification of sub-categories by industry risk, leading to an even lower tolerance for what is considered a high risk supplier. The third party audit of high risk suppliers were also postponed due to COVID-19 and will be resumed as soon as the situation returns to normal.

Supply chain management ¹⁾	2020	2019	2018
Total number of significant suppliers of direct material	118	109	110
Raw tobacco			
Number of raw tobacco suppliers ²⁾	43	43	37
Share of raw tobacco volumes sourced from international tobacco suppliers ³⁾	93	N/A	N/A
Number of farms visited by Swedish Match	47	138	119
Share of raw tobacco volumes included in STP or in Swedish Match’s due diligence program, % ³⁾	97	N/A	N/A
Number of self-assessments performed by raw tobacco suppliers	5	1	33 ⁴⁾
Number of third party reviews performed on raw tobacco suppliers	1	0	38 ⁴⁾
Direct materials other than raw tobacco			
Number of significant suppliers of direct material other than raw tobacco	75	66	73
Number of high risk suppliers of direct material other than raw tobacco	17	15	22
Number of self-assessments performed on significant suppliers of direct material other than raw tobacco ³⁾	11	9	4
Number of third party audits performed on high risk suppliers of direct material other than raw tobacco	0	5	N/A

¹⁾ Data 2018 excludes facilities acquired in 2017 and 2018; Swedish Match Denmark (previously V2 Tobacco), House of Oliver Twist, and Gotlandssnus.

²⁾ Revised due to further analysis. Raw tobacco suppliers are viewed as individual suppliers per country.

³⁾ New KPIs added in 2020.

⁴⁾ Self-assessments and third party audits conducted under the old STP.

Going forward:

- Review the results from the first cycle of self-assessment under the new STP and perform third party assessments on the subsidiaries of our suppliers that are located in geographies where there is an elevated risk of non-compliance with the high standard set by STP.
- Continued third party audits of high risk suppliers of direct material other than tobacco and actions on potential findings.



EQUAL OPPORTUNITY

OUR COMMITMENT

We are committed to non-discrimination in all employment practices, policies, benefits and procedures and we work diligently to make sure that all our managers and employees understand that there is zero tolerance for discrimination. Neither employees, nor potential employees, should feel that they are or could be the subject of discrimination at Swedish Match.

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 take a proactive approach for diversity and against structural discrimination and norms that may stand in the way of equal opportunities.



The scope of this focus area is our own operations.

OUR GOAL

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.

- 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 management¹⁾.
- To increase diversity in cultural backgrounds.

¹⁾ Defined as participants in the Company's Long Term Incentive (LTI) program, composed of 39 individuals in 2020.

OUR APPROACH

Tone from the top for equal opportunity

We are convinced that a diverse workforce and diverse management groups are positive for our business. Diversity creates value in and of itself, and a balanced workforce improves our chances of recruiting and retaining the best talent. We have identified gender and cultural background to be the areas where the Company could benefit most from an increased focus.

We believe that the most important element of our efforts is to foster a genuine culture of equal opportunity with the right tone from the top. The Group Management Team (GMT) is fully committed to our equal opportunity efforts. Progress is continuously being monitored and senior managers are mindful to set clear examples that help developing and fostering the culture. Many actions are taken each year to ensure that we create and maintain an inclusive work environment. We continually have initiatives to assess and improve our culture from a diversity perspective. We monitor our recruitments and promotions, organize gender equality programs, perform detailed equal pay analyses and conduct other equal employment opportunity efforts. Employee satisfaction and perceived ability to advance and develop are tracked through a global employee opinion survey which also includes parameters on discrimination.

How we achieve equal opportunity

The processes for promotions and recruitments are very important aspects of shaping and developing a company culture. They are also key elements in achieving a more diverse workforce. We work hard to make sure that these processes are non-discriminatory. This will benefit our equal opportunity efforts both in the long and short term. We consider it to be strategically important to develop and promote internal personnel and we have been successful in filling many vacancies for senior positions with internal candidates. We, therefore, consider a diverse talent pool to be a key element of achieving a more diverse workforce at the senior management level over time. The GMT thoroughly reviews the pool of often relatively junior talented employees from several perspectives, including diversity, and discuss means to become more effective in ensuring a large and diverse pool of employees with a mixed set of skills that can advance far in the organization. For more immediate effects external recruitment is an important tool. We view every external recruitment as an opportunity to truly ensure that we scan the entire market for the very best candidate. Experience has taught us that norms and existing structures, (e.g. candidate pools at recruitment firms) mean that we need to be prepared to make extra efforts and extend the search processes in time to ensure that the group of identified candidates becomes more diverse. We challenge our managers to try to have diversity among the final candidates for any position to make sure that we find the most skilled and promising candidate.

Specifically related to gender balance at senior positions, we have identified that inequality and norms related to parental leave creates structural inequality in several countries and societies where we operate. At Swedish Match, the rules and policies related to parental leave vary from country to country, but the culture of encouraging a more equal sharing of parental leave is promoted from the top.





In Sweden, a policy has been implemented with additional parental leave compensation provided that the employee can show that parental leave has been equally shared with the partner. This will encourage both our male and female employees to share the parental leave equally and in 2020 this policy was updated to create further incentives for equal sharing by employees at the most senior positions.

Swedish Match derives its revenues and earnings mainly from outside Sweden. The Corporate functions, to a large but not complete extent based at the headquarters in Sweden, interact on a daily basis with colleagues across the globe. A diverse and international organization at the headquarters is a clear benefit in this environment. Colleagues from several continents work at the Stockholm headquarters, and the Company is proactively engaging in specific employer branding activities targeted at highly qualified international students.

We have procedures in place where any employee who feels that there has been a breach of our policy of zero tolerance for discrimination can report such breach. We also make sure that we have procedures in place to ensure that swift action is taken to investigate and resolve any such employee concerns without fear of retaliation.

How we monitor our progress

To follow up on diversity goals throughout the organization, KPIs have been established for the Group. We have a Group goal of having at least 40 percent of each gender in senior management. Gender balance targets, and subject to legal limitations targets relating to cultural background, are also set locally striving for greater balance over time, particularly with regard to more senior levels within the organization. Analysis, identification of relevant initiatives and following up of targets and KPIs are integrated into normal processes for strategic, financial and general business planning and reviews.

All divisions as well as Corporate functions present status and changes in gender balance within their organizations. These status updates are reviewed by the Group Management Team and provide greater awareness and involvement in the organization. They are also followed up in business and talent review meetings between the CEO and Division Presidents, typically five times per year.

Our businesses in both the US and Sweden present status reports within their organizations, concerning to protected groups and those from other cultural backgrounds or country of origin. In Sweden, information is being gathered to identify the percentage employees and managers who are either born 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.

OUR PROGRESS

HIGHLIGHTS 2020

- Continued strong Group-wide focus on always ensuring diversity among applicants in order to find best candidates.
- The 2020 global employee survey results showed improvements on every parameter measured compared with the survey from 2018 and very good net promoter scores among both females and males compared to benchmark.
- The share of female managers was 38 percent in both Europe Division and Corporate functions.
- A diversity and inclusion committee was formed at the US Division head office in Richmond to further advance efforts within equal opportunity in the division and the office was awarded a Top Workplaces regional award for the 6th consecutive year.
- An anti-harassment and discrimination training was completed by almost 100 percent of the employees in the US.
- New policies were implemented to promote equal distribution of parental leave between caretakers for Swedish Match employees in Sweden.

Progress update

In the group of all employees, Swedish Match considers its workforce balanced from the gender perspective. However, women are still underrepresented at the management level. By the end of 2020, the share of female employees had increased to 41 percent but the share of female managers remained at 26 percent. In the group defined as senior management, the percentage of females was 18 percent up from 17 percent last year. The popularity of Swedish Match as a workplace and the resulting high retention rates both for managers and senior managers have resulted in slow progress but we noted positive trends in some parts of the Company. In some organizational units we are close to reaching our goals. We remain confident that our current and future focus on equal opportunity eventually will increase the share of females in management positions. What we do today will have effect in the long run.

A global employee survey was conducted during 2020. Overall the results are strong with improvements in every area compared to 2018. At Group level, the Company is above other similar companies in most areas where benchmarks are available. Most notably, the survey showed very strong results on how likely it is that an employee would recommend Swedish Match as an employer to a friend. This is true for both female and male employees which is encouraging in terms of assessing our culture from an equal opportunity perspective. It shows that our focus on culture has made a difference. Areas where results were weaker will be followed up in divisions and departments for further actions.



The Company has a goal that no employees should feel that they are, or could be, the subject of discrimination at the workplace. This is continually followed up in performance management discussions between managers and employees, and in 2020 it was also specifically followed up in the global employee survey. The survey showed that the share of employees who agree that their working group is free from discrimination at work (with regard to gender, ethnicity, religion, sexual orientation, disability and age) increased to 93 percent in 2020. Even if the result is on par with benchmark, it is not satisfying. The result will be followed up within all divisions and guide the development of further action plans.

A number of planned activities to specifically promote a culture of equal opportunity and diversity were planned for 2020 but could not be carried out as scheduled due to COVID-19. The planned activities will resume once the situation in relation to COVID-19 allows.

In Europe Division and at Corporate functions the work with equal opportunity has continued to be guided by our local equality

plans. We have seen good progress over time in terms of gender balance at managerial level. The share of female managers was 38 percent in both Europe Division and at Corporate functions. During the year, new policies were implemented to promote equal distribution of parental leave between caretakers. At Corporate functions there were also specific activities to promote cultural diversity in our talent pool. This included recruitment efforts targeted at students who do not have Swedish as their first language.

The US Division completed an anti-harassment and discrimination training for almost all its employees. The work with Affirmative Action Plans was also carried out as planned. A diversity and inclusion committee was formed at the Richmond office to further advance efforts within equal opportunity and preparations were made to launch a division wide diversity and inclusion training initiative. During the year the US Division's head office in Richmond was awarded Top Workplaces¹⁾ regional award for the sixth consecutive year.

¹⁾ An employer recognition program in the US. The event is hosted by the Richmond Times Dispatch. For more information, please refer to <https://topworkplaces.com/company/swedish-match-north-amer/richmond/>.





Gender representation	2020	2019	2018
Senior management			
Share of female members in senior management, % ¹⁾	18	17	21
Board of Directors			
Total number of members in Board of Directors appointed by the Annual General Meeting	8	7	7
Share of female members in Board of Directors appointed by the Annual General Meeting, %	38	43	43
Share of female members in Board of Directors appointed by the trade unions, %	0	0	0
Employees²⁾			
Share of female employees, %	41	40	41
Share of female managers with direct reports, %	26	26	27

¹⁾ Defined as participants in the Company's Long Term Incentive (LTI) program, composed of 39 individuals in 2020.

²⁾ Represents figures at year-end.

Employees on discrimination ¹⁾	2020	2018	2016
Share of employees who agree that their working group is free from discrimination at work, %	93	92	94

¹⁾ The Group employee survey is conducted regularly. The difference between 2016 and 2018 was partly explained by the rephrasing of the question in the survey.

Cultural background, affected group's share ¹⁾ , %	2020	2019	2018
Employees			
Sweden	24	24	26
The US	16	16	17
Managers			
Sweden ²⁾	12	11	13
The US	11	10	10

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

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

Going forward:

- We will resume various planned initiatives to work with our culture from an equal opportunity and diversity perspective which have been postponed by COVID-19.
- We will continue our focus on managerial recruitment to promote diversity among final candidates.
- Our long term efforts related to diversity in our pool of talents will continue.

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

The Board of Directors is responsible for the statutory sustainability report for the year 2020-01-01 – 2020-12-31 on pages 30–62 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 15, 2021

Deloitte AB

Peter Ekberg
Authorized Public Accountant