

## Full Year Report January – December 2020

### Strong finish to the year with top-line growth across all product segments

- Record sales and operating profit for the year driven by strong traction for ZYN nicotine pouches in the US. Double-digit operating profit growth in local currencies for the Smokefree and Cigar product segments in both the full year and the fourth quarter.
- COVID-19 related effects are estimated to have elevated sales and operating profit for the full year as well as in the fourth quarter.
- In local currencies, sales increased by 15 percent for the fourth quarter and by 17 percent for the full year. Reported sales increased by 5 percent to 4,136 MSEK (3,933) for the fourth quarter and by 13 percent to 16,698 MSEK (14,739) for the full year despite significant strengthening of the Swedish krona during the year versus the US dollar, the Norwegian krona and the Brazilian real.
- In local currencies, operating profit from product segments<sup>1)</sup> increased by 23 percent for the fourth quarter and by 28 percent for the full year. Reported operating profit from product segments increased by 12 percent to 1,695 MSEK (1,520) for the fourth quarter and by 23 percent to 7,160 MSEK (5,812) for the full year.
- Operating profit amounted to 1,650 MSEK (1,098) for the fourth quarter and to 6,991 MSEK (5,307) for the full year. The fourth quarter of 2019 included a non-cash impairment charge of 367 MSEK related to the European chewing tobacco business.
- Profit after tax amounted to 1,244 MSEK (756) for the fourth quarter and to 4,888 MSEK (3,896) for the full year. The full year 2020 includes a charge of 286 MSEK following an adverse ruling in a tax case.
- Adjusted earnings per share increased by 15 percent to 7.82 SEK (6.81) for the fourth quarter and by 27 percent to 32.16 SEK (25.41) for the full year. Earnings per share amounted to 7.82 SEK (4.62) for the fourth quarter and to 30.38 SEK (23.22) for the full year.
- The Board proposes an increased dividend of 15.00 SEK per share. The Board also proposes a 10:1 split of the Swedish Match share.
- The outlook for 2021 can be found on page 14.

1) Excludes Other operations and larger one-time items.



## CEO Lars Dahlgren comments:

### A year like no other but with an outstanding performance for Swedish Match

In last year's Annual Report, we described 2019 as a year of transformation where Swedish Match, aligned with our vision, established itself as the clear market leader for nicotine pouches in the US and began offering nicotine pouches to markets outside of our core Scandinavian and US markets. Similarly, our Outlook for 2020 reinforced our commitment to invest for growth and our ambition to create value for both shareholders and society by providing products that are recognized as safer alternatives to cigarettes. We also pointed to our firm belief that the trend of increased interest from consumers, industry participants and regulators in smokefree nicotine products would continue.

In many respects, our commentary in the 2019 Annual Report could not have proven more prescient. Driven by the extraordinary consumer response we have experienced for ZYN nicotine pouches in the US, our Smokefree sales exceeded 10 billion SEK for the full year and US Smokefree now represents the largest sales and profit contributor to the Group. Many of our competitors have also taken aggressive steps to enter or expand their presence in the nicotine pouch space understanding that this relatively novel category that we pioneered in 2015 is driving the "harm reduction" frontier and evolving into what could become the most meaningful category within what many refer to as next generation products.

While 2020 will be remembered for many things, the COVID-19 pandemic has left a permanent mark on society, changing everyday life in dramatic ways and sparing few from some form of loss. As an organization, Swedish Match has effectively implemented protocols to minimize the spread of the virus, and the efforts have been remarkable in ensuring that our consumers have had access to the Swedish Match brands that they enjoy. During the course of 2020, COVID-19 resulted in temporary factory closures, but with the exception of cigars, we have recorded minimal supply disruptions. As a result of the outstanding efforts by the supply chain professionals across our Group, production levels as we exited 2020 reached pre-COVID-19 levels across our portfolio. For cigars, our dual factory footprint proved to be a distinct competitive advantage as our US based facility contributed with significant volumes of HTL cigars that compensated for supply constraints of natural leaf varieties that we manufacture in the Dominican Republic.

The impact of COVID-19 during the year was not limited to our facilities as we experienced notable changes in consumer demand and shopping behaviors. Travel restrictions resulted in somewhat lower shipment volumes and an altered channel/market mix in our Scandinavian Smokefree business, while demand for traditional US smokefree tobacco products, as well as for cigars in the US, is estimated to have been elevated due to the pandemic. While the key driver for our full year record sales and operating profit was the success for ZYN in the US, we estimate that the net COVID-19 related effects also contributed to the improved financial performance during 2020.

On a local currency basis, all product segments delivered top-line and operating profit growth for the year. The US Smokefree business contributed with significant year-on-year sales and profit growth throughout the whole year. For cigars in the US and for the first half, the year-on-year financial development was negatively impacted by COVID-19, but over the course of the second half of 2020, we saw an impressive recovery with accelerated volumes, sales and operating profit growth.

Possibly influenced by the pandemic, we noted unusually large movements in exchange rates during 2020. The year started with a historically strong USD versus the SEK, but the strengthening of the SEK throughout the year obfuscated the local currency growth of our US business when reported in SEK. Additionally, the Scandinavian Smokefree business with its important Norwegian business was exposed to unusually large currency effects. The Norwegian Krona (NOK) weakened markedly during the spring coinciding with a significant COVID-19 related rise in shipment volumes to Norway. The rise in shipments to the domestic Norwegian trade was brought on by travel restrictions and partially offset declines in shipments to other markets. In Scandinavia, smokefree alternatives continue to grow in popularity, and during the past year we noted particularly impressive category growth in the Danish market. For Swedish Match, volatility in shipment volumes and exchange rates resulted in swings in reported sales and earnings, but on an underlying basis our Scandinavian Smokefree business grew sales and operating profit relative the prior year period in each of the quarters of 2020.

The Lights business benefitted from some special income items in both 2020 and 2019 (like capital gains on sales of land and forestry assets not needed in operations), but on an underlying basis the results from the

Lights business were solid over the course of 2020. The improvement relative to the 2019 performance was especially pronounced during the first half of the year.

The rapid growth of ZYN in the US shows that many cigarette smokers and other tobacco consumers are looking for alternatives. This is great potential from a business perspective but also in terms of improved public health. A fact that has been clearly demonstrated during the year is that for harm reduction to be effective on a wider scale in practice, a prerequisite is attractive low risk products that appeal to broader parts of the cigarette smoking population. Adoption of ZYN nicotine pouches by smokers in the US has far outpaced the relatively limited traction we have seen for our snus portfolio despite the MRTP designation received in 2019. To that end, we were pleased to be the first company to have filed its PMTA applications for nicotine pouches with FDA in March 2020. Our cigar operations also engaged extensively with the FDA during the year, as SE applications were filed for our entire cigar portfolio. In Europe, the regulatory environment for smokefree products remains counter-productive from a public health angle for tobacco based smokefree alternatives and is underdeveloped for nicotine pouches. Our German chewing tobacco business was severely impacted in an adverse manner as a Bavarian court, according to our firm opinion, erroneously classified some of our chewing tobacco products as snus and therefore subjected to the EU snus ban that applies outside Sweden. The competitive environment for nicotine pouches reflects that in most European countries, there is no category specific legislation for these types of products. Swedish Match considers the current situation as unsustainable and strongly advocates the implementation of responsible, proportionate and harmonized product and marketing regulation for this category.

With 2019 being a year of transformation and 2020 being a year of adaptability, we enter 2021 as a stronger, yet different, company. The success that we experienced in 2020 would not have been possible without the tireless dedication and ingenuity of our employees, the long-forged relationships that we have with our vendors and the continued passion and trust that our customers and consumers place in Swedish Match and its brands. I would like to thank everyone at Swedish Match, as well as our customers, consumers, vendors, shareholders, and other stakeholders, for being a part of Swedish Match's journey.

## Summary of consolidated income statement

MSEK	October-December		Chg %	Full year		Chg %
	2020	2019		2020	2019	
Sales	4,136	3,933	5	16,698	14,739	13
Sales from product segments <sup>1)</sup>	4,045	3,838	5	16,332	14,363	14
Operating profit from product segments <sup>1)</sup>	1,695	1,520	12	7,160	5,812	23
Operating profit, excl. larger one-time items <sup>2)</sup>	1,650	1,465	13	6,991	5,675	23
Operating profit	1,650	1,098	50	6,991	5,307	32
Profit before income tax	1,570	1,039	51	6,644	5,060	31
Profit for the period	1,244	756	65	4,888	3,896	25
Operating margin from product segments, % <sup>1)</sup>	41.9	39.6		43.8	40.5	
Earnings per share, basic and diluted, SEK	7.82	4.62		30.38	23.22	
Adjusted earnings per share, basic and diluted, SEK <sup>2)3)</sup>	7.82	6.81		32.16	25.41	

1) Excluding Other operations and larger one-time items.

2) Excluding a larger one-time item during the fourth quarter 2019, which pertains to a non-cash impairment charge for the European chewing tobacco business, see Note 5.

3) Adjusted earnings per share in 2020 excludes a tax charge including interest of 286 MSEK related to an adverse ruling in a tax case in Sweden recognized in the third quarter 2020, see Note 7.

## The fourth quarter

(Note: Comments below refer to the comparison between the fourth quarter 2020 vs. the fourth quarter 2019).

### Sales

Group sales and sales from product segments both increased by 5 percent to 4,136 MSEK (3,933) and 4,045 MSEK (3,838), respectively. In local currencies sales from product segments increased by 15 percent, with all product segments contributing to the growth. Currency translation negatively affected the comparability of sales from product segments by 373 MSEK.

The main contributor to the growth in sales in local currencies was the Smokefree product segment and the continued traction for ZYN nicotine pouches in the US. The product segment Cigars also delivered strong sales growth, driven by sharply increased shipment volumes. Similar to the second and third quarters, COVID-19 related effects are estimated to have increased consumer demand for cigars, chewing tobacco and moist snuff in the US. For Smokefree in Scandinavia, sales development in local currency benefitted from a positive price mix effect during the second and third quarters as shipments to the domestic Norwegian market were elevated due to COVID-19 related travel restrictions. During the fourth quarter, the positive price mix effect on sales in local currencies was largely offset by a sharp decline in shipments to Norway as distributors and the trade reduced inventories ahead of an enacted significant excise tax decrease effective January 1, 2021.

### Earnings

Operating profit from product segments increased by 12 percent to 1,695 MSEK (1,520). In local currencies, operating profit from product segments was up by 23 percent. During the fourth quarter of 2019, a non-cash impairment charge of 367 MSEK for the European chewing tobacco business was recognized as a larger one-time item (see Note 5). Group operating profit, including larger one-time items, increased to 1,650 MSEK (1,098). Currency translation has affected the comparison of the operating profit negatively by 172 MSEK.

The Smokefree product segment was the largest contributor to the increase in operating profit in local currencies, but cigars posted the largest gain in percentage terms. The operating profit for the Lights product segment declined markedly, driven by negative currency translation effects and income of a one-time character in the prior year period. The COVID-19 related effects that favorably affected sales as well as certain costs which were curtailed due to restrictions brought on by the pandemic both contributed to the growth in operating profit.

The Group's net finance cost increased to 80 MSEK (59) due to higher average debt and reduced financial returns on surplus cash. The income tax expense amounted to 326 MSEK (283), corresponding to a corporate tax rate of 20.8 percent (27.2). The tax rate in the quarter has been favorably impacted by certain non-recurring tax deductions and the higher tax rate in 2019 was negatively impacted by the above mentioned impairment charge which was nondeductible for income tax purposes.

The Group's profit for the period amounted to 1,244 MSEK (756).

Earnings per share (EPS) for the fourth quarter amounted to 7.82 SEK (4.62). Adjusted EPS increased by 15 percent to 7.82 SEK (6.81) for the fourth quarter.

## The full year

(Note: Comments below refer to the comparison between full year 2020 vs. full year 2019).

### Sales

Group sales increased by 13 percent to 16,698 MSEK (14,739). Currency translation affected the sales comparison negatively by 571 MSEK. In local currencies, sales from product segments increased by 18 percent with increases across all three product segments. Driven by the success for ZYN nicotine pouches in the US, the Smokefree product segment was the largest contributor to the revenue growth, both in absolute terms and in percentage terms. It is estimated that COVID-19 related effects resulted in increased consumer demand – predominantly for traditional tobacco products in the US – and also generated a positive price mix effect in the Scandinavian smokefree business that resulted from unusually high shipment volumes to the domestic Norwegian market.

### Earnings

Operating profit from product segments amounted to 7,160 MSEK (5,812). In local currencies the operating profit from product segments increased by 28 percent and increased for all product segments. The Smokefree product segment was also the largest contributor to the operating profit growth in local currencies, both in absolute terms and in percentage terms. COVID-19 related effects elevated operating profit by way of increased sales and reduction of certain costs.

Group operating profit, including larger one-time items, amounted to 6,991 MSEK (5,307). Currency translation has affected the comparison of the operating profit negatively by 292 MSEK. The larger one-time item in the fourth quarter of 2019 related to the above-mentioned impairment charge for the European chewing tobacco business.

The Group's net finance cost amounted to 347 MSEK (247) reflecting increased average debt and lower financial returns on surplus cash as well as interest costs of 16 MSEK relating to an adverse ruling in a tax case in Sweden in August 2020 (see Note 7). Income tax expense amounted to 1,756 MSEK (1,165), corresponding to a corporate tax rate of 26.4 percent (23.0). The high tax rate for the Group resulted from the incremental income tax expense of 270 MSEK relating to the Swedish tax case as well as the continued increase in the relative contribution to earnings from our US businesses. When adjusted for the tax case, associated companies and non-recurring tax items the underlying tax rate was 23.1 percent (21.8).

The Group's profit for the period amounted to 4,888 MSEK (3,896).

EPS for the full year amounted to 30.38 SEK (23.22). Adjusted EPS increased by 27 percent to 32.16 SEK (25.41) for the full year.

## New designs, better environmental footprint

During the latter part of 2020, our largest snus production units, located in Sweden, migrated completely away from black plastic used for some of its products, to fully recyclable cans. At the same time, some design changes were made, to further support brand identity and heritage. The redesign of *General* Original Portion, now in a gold can, is one example. The most rapidly growing segment in Scandinavia is nicotine pouches, including *G.4*, primarily in the Norwegian market and *ZYN* in Sweden and Denmark.





## Smokefree

### Fourth quarter highlights:

- Sales and operating profit growth driven by continued strong performance for ZYN in the US
- Strong underlying quarter in Scandinavia but significant destocking in Norway ahead of excise tax decrease effective January 1, 2021
- Growth for nicotine pouches in Other markets from a small base, but sharp declines for chewing tobacco following regulatory challenges



### Key data

MSEK	October-December		Chg %	Full year		Chg %
	2020	2019		2020	2019	
Sales	2,606	2,475	5	10,651	8,914	19
Operating profit	1,168	1,060	10	5,142	3,997	29
Operating margin, %	44.8	42.8		48.3	44.8	
EBITDA	1,269	1,159	10	5,539	4,353	27
EBITDA margin, %	48.7	46.8		52.0	48.8	
Depreciation, amortization and impairment	-101	-99		-397	-356	
Capital expenditures	338	150	125	1,003	593	69

### The fourth quarter

(Note: Comments below refer to the comparison between the fourth quarter 2020 vs. the fourth quarter 2019).

In local currencies, sales for the Smokefree product segment increased by 13 percent. Currency translation affected the sales comparison negatively by 200 MSEK resulting from a stronger SEK relative to the USD and the NOK. Operating profit in local currencies increased by 21 percent with currency translation effects amounting to 114 MSEK. Sales and operating profit in local currencies grew in Scandinavia and the US but declined in Other markets.

### Scandinavia

Scandinavia refers to Sweden, Norway, and Denmark.

### Key data

	October-December		Chg %	Full year		Chg %
	2020	2019		2020	2019	
<b>Financials</b>						
Sales, MSEK	1,217	1,251	-3	4,675	4,624	1
Operating profit, MSEK	615	638	-4	2,465	2,432	1
Operating margin, %	50.5	51.0		52.7	52.6	
<b>Shipment volumes</b>						
Snus, million cans	62.8	69.0	-9	243.6	260.2	-6
Nicotine pouches, million cans	3.5	2.7	28	13.1	8.6	52
Chew bags and tobacco bits, million cans	1.3	0.9	42	4.4	3.6	21

### Market shares, Scandinavia<sup>1)</sup>

Percent	October-December		Chg ppts	Full year		Chg ppts
	2020	2019		2020	2019	
Snus <sup>2)</sup>	60.1	60.1	0.0	60.0	60.1	0.0
Nicotine pouches <sup>3)</sup>	16.1	17.2	-1.1	16.0	17.8	-1.8
<b>Total<sup>4)</sup></b>	<b>52.8</b>	<b>55.7</b>	<b>-2.9</b>	<b>53.6</b>	<b>56.7</b>	<b>-3.1</b>

1) Based on Nielsen data (excluding tobacconists and e-commerce): 13 weeks and YTD to December 27, 2020 and December 29, 2019 respectively. All figures have been restated to reflect changes in Nielsen store measurements.

2) Includes snus in Sweden and Norway. Snus is not allowed to be sold in Denmark.

3) Nicotine pouches in Norway contain a small amount of tobacco for regulatory reasons.

4) Includes snus in Sweden and Norway, chew bags in Denmark, and nicotine pouches in all three countries.

In local currencies sales and operating profit for Smokefree in Scandinavia grew by 1 and 2 percent respectively. The increase in local currency sales resulted from price changes and mix effects that more than compensated for the lower shipment volumes for snus. Shipment volumes to Norway declined sharply towards the end of the quarter ahead of the significant excise tax decrease effective January 1, 2021. For the full quarter, however, higher domestic shipments to Norway due to COVID-19 related travel restrictions contributed to the positive mix effect. Sales and volumes grew for nicotine pouches in all three countries. The average production cost per can increased, impacted by the production mix with more nicotine pouches, but other operating expenses declined.

Due to COVID-19 related travel restrictions and channel shifts, it remains a challenge to get an accurate read of the underlying growth of the Scandinavian smokefree market, especially for shorter periods. However, Swedish Match estimates that the category continued to grow during the fourth quarter, with the strongest growth in percentage terms coming from the Danish market where the consumption of nicotine pouches during 2020 is estimated to have trebled compared to the prior year. For the full year 2020, Swedish Match estimates that the Scandinavian smokefree category grew by close to 4 percent in volume terms, with growth being negatively impacted by reduced sales to tourists and other travelers.

According to Nielsen, on a year-on-year basis, Swedish Match's market share of the Scandinavian smokefree category declined by about 3 percentage points for both the fourth quarter and for the full year. For snus, the market shares were largely flat, stemming from market share gains in Norway offset by slight erosion of share in Sweden. For nicotine pouches, Swedish Match's market share declined somewhat in Sweden and Norway during the fourth quarter compared to the prior year, while the market share in Denmark improved from a low level. On a sequential basis, however, Swedish Match's market share in Scandinavia for snus as well as for nicotine pouches grew in the fourth quarter compared to the third quarter.

### The US

#### Key data

	October-December		Chg %	Full year		Chg %
	2020	2019		2020	2019	
<b>Financials, MSEK</b>						
Sales	1,361	1,174	16	5,818	4,082	43
Operating profit	616	443	39	2,802	1,534	83
Operating margin, %	45.3	37.7		48.2	37.6	
<b>Financials, MUS\$</b>						
Sales	158	122	29	632	431	47
Operating profit	72	46	56	304	162	88
Operating margin, %	45.5	37.7		48.2	37.6	
<b>Shipment volumes</b>						
Moist snuff, million cans	29.7	30.4	-2	133.3	124.0	8
Nicotine pouches, million cans	30.9	19.4	59	114.1	50.4	126
Chewing tobacco, thousands of pounds (excluding contract manufacturing volumes)	1,236	1,260	-2	5,687	5,681	0

### Market shares<sup>1)</sup>

Percent	October-December		Chg ppts	Full year		Chg ppts
	2020	2019		2020	2019	
Moist snuff	8.7	8.4	0.3	8.8	8.3	0.5
Nicotine pouches	73.5	76.9	-3.4	74.5	83.4	-8.9
Chewing tobacco (excluding contract manufacturing volumes)	40.3	40.9	-0.5	40.5	40.3	0.1

1) Based on MSA distributor shipments: 13 weeks and YTD to December 27, 2020 and December 29, 2019 respectively. Figures for 2019 have been restated to reflect changes in MSA store measurements.

In local currency, US Smokefree sales grew by 29 percent. The growth in sales in local currency was driven by ZYN nicotine pouches, but sales also increased for moist snuff and for chewing tobacco. The growth for ZYN was attributable to broader distribution as well as increased store velocities in both the initial launch markets in the West and the expansion markets in the rest of the US. On a sequential basis, relative to the third quarter, shipment volumes contracted somewhat, principally as a result of fewer delivery days and inventory adjustments at a larger distributor. For moist snuff, shipment volumes for our largest brand, *Longhorn*, increased but overall volume development was negatively affected by SKU rationalizations in the remainder of the portfolio. Sales for moist snuff increased as a result of improved average pricing, partly attributable to unusually low realized average pricing in the prior year period. Chewing tobacco continued to demonstrate resilience and the 2 percent decline in shipment volumes in the fourth quarter and the slight shipment volume improvement for the full year reflect a notably stronger performance compared to the long-term trend of more pronounced volume declines within the category. The relatively stronger volume performance is likely to have been impacted by COVID-19 related effects on consumption patterns. Despite an increased share of value priced chewing tobacco products in the portfolio, sales in local currency increased as price changes more than offset the slight volume decline and negative mix effects.

Operating profit in local currency increased by 56 percent with operating profit growth in each of our US Smokefree businesses. For ZYN nicotine pouches, operating profit increased significantly compared to the prior year but declined on a sequential basis relative the third quarter as a consequence of the somewhat lower sales and higher marketing expenses. For moist snuff and chewing tobacco, the increased sales drove the improved operating profit.

Competition in the US nicotine pouch category is intensifying, but Swedish Match remains the clear leader and, to date, ZYN has demonstrated market share resilience in this rapidly growing sector. The moist snuff category continued to grow in the fourth quarter, probably somewhat positively impacted by COVID-19 related effects on consumer demand. Swedish Match has gained market share during the year, driven by strong traction for its value-priced *Longhorn* brand. Within chewing tobacco, Swedish Match experienced a decline in market share for the quarter, but a slight gain for the full year.

### Other markets

#### Key data

	October-December		Chg %	Full year		Chg %
	2020	2019		2020	2019	
Sales, MSEK	28	50	-45	158	208	-24
Operating profit, MSEK	-62	-20		-125	32	
Operating margin, %	-225.5	-40.4		-79.1	15.2	
Shipment volumes, million cans <sup>1)</sup>	1.4	2.6	-44	7.9	10.9	-28

1) Total shipment volumes for snus, nicotine pouches, chew bags, and tobacco bits.

For Smokefree in Other markets, sales declined principally due to steep declines for chewing tobacco shipments to Germany following the adverse ruling in the Bavarian Administrative Court specifying that certain chewing tobacco products shall be considered oral tobacco and therefore be subject to the ban on sales of snus in the EU outside Sweden. The decline in sales for chewing tobacco was only partially offset by strong growth in sales of nicotine pouches in Europe from a low base. In addition to the effects of the decline in sales, the reported operating loss reflected continued investments to support future growth in several markets.



## The full year

(Note: Comments below refer to the comparison between full year 2020 vs. full year 2019).

In local currencies, sales and operating profit for the Smokefree product segment increased by 23 percent and 34 percent respectively. Sales and operating profit grew both as reported and in local currencies for Smokefree in Scandinavia and the US but declined in Other markets due to lower sales of chewing tobacco and increased market investments.

In Scandinavia, sales and operating profit in local currencies increased by 4 and 7 percent respectively. Scandinavian shipment volumes were adversely impacted by trade and distributor inventory adjustments and travel restrictions, which contributed to the decline in shipment volumes of 4 percent. The higher realized average price per can resulted from price changes and positive product and COVID-19 influenced market mix effects.

In the US, the impressive growth for ZYN nicotine pouches was the key contributor to the increased sales and operating profit in local currency of 47 and 88 percent respectively. Operating profit for the US moist snuff and chewing tobacco businesses also increased in local currency, driven by improved sales with volume growth for moist snuff and chewing tobacco and higher realized pricing for chewing tobacco as contributing factors. For chewing tobacco, the value price segment, in which Swedish Match has a lower market share compared to the average for the portfolio grew in volume terms, while the full price segment declined. Swedish Match gained share in both the premium and value price segments.

## Cigars

### Fourth quarter highlights:

- Strong double digit growth of sales and operating profit in local currency driven by another impressive quarter for HTL cigars
- Continued productivity gains in Dominican Republic resulted in year-on-year and sequential growth for natural leaf cigars



Key data						
MSEK	October-December			Full year		
	2020	2019	Chg %	2020	2019	Chg %
Sales	1,152	1,040	11	4,533	4,249	7
Operating profit	481	359	34	1,796	1,577	14
Operating margin, %	41.7	34.5		39.6	37.1	
EBITDA	503	381	32	1,883	1,662	13
EBITDA margin, %	43.6	36.6		41.5	39.1	
Depreciation, amortization and impairment	-22	-22		-87	-85	
Capital expenditures	26	12	116	74	52	42

Key data						
MUSD	October-December			Full year		
	2020	2019	Chg %	2020	2019	Chg %
Sales	133	108	23	493	449	10
Operating profit	55	37	48	195	167	17
Operating margin, %	41.6	34.5		39.6	37.1	
EBITDA	58	39	46	205	176	16
EBITDA margin, %	43.5	36.6		41.5	39.1	
Depreciation, amortization and impairment	-3	-2		-9	-9	
Capital expenditures	3	1	135	8	6	46

## The fourth quarter

(Note: Comments below refer to the comparison between the fourth quarter 2020 vs. the fourth quarter 2019).

The Cigars product segment derives its sales and profit almost exclusively from the US operations. In local currency, sales were up by 23 percent, while operating profit growth reached 48 percent as a result of favorable product mix, efficient production and only a marginal increase in other operating expenses.

The strong top-line development was driven by the continued impressive performance for Homogenized Tobacco Leaf (HTL) cigars fueled by increased velocity for the *White Owl* brand. Volume and sales also grew for natural leaf cigars as improved performance for rolled leaf cigars offset declines in the rest of the portfolio.

Swedish Match manufactures its more labor intensive natural leaf varieties exclusively in its cigar plant in the Dominican Republic. Following the onset of the COVID-19 pandemic, it has been a challenge to operate the Dominican facility, that employs more than three thousand employees, at full capacity while maintaining adequate hygiene and social distancing measures. Over the course of the second half of the year, capacity and productivity have been enhanced and notable progress was achieved during the fourth quarter. However, the demand for natural leaf varieties continued to exceed Swedish Match's ability to supply the market during the quarter.

The strong category growth, likely positively impacted by COVID-19 related effects on consumption patterns, continued during the fourth quarter. Based on MSA measures of distributor shipments to retail, total mass market cigar category volumes (excluding little cigars) increased by 19.5 percent in the quarter and by 16.7 percent for the full year. The category growth for natural leaf cigars exceeded that of HTL cigars both in the quarter and for the full year period. Despite production constraints for natural leaf cigars, Swedish Match grew its market share of the cigar category both on a quarterly and a full year basis versus the prior year as market share gains within HTL more than offset the declines within natural leaf.

### US shipment volumes

	October-December		Chg %	Full year		Chg %
	2020	2019		2020	2019	
Homogenized tobacco leaf (HTL) cigars, million sticks	221	144	54	838	625	34
Natural leaf cigars, million sticks	277	265	5	1,065	1,067	0
<b>Cigars total</b>	<b>499</b>	<b>408</b>	<b>22</b>	<b>1,903</b>	<b>1,692</b>	<b>12</b>

### Market shares<sup>1)</sup>

Percent	October-December		Chg ppts	Full year		Chg ppts
	2020	2019		2020	2019	
Homogenized tobacco leaf (HTL) cigars	15.9	12.0	3.9	15.3	12.5	2.8
Natural leaf cigars	37.0	45.0	-8.0	37.7	43.4	-5.8
<b>Cigars total</b>	<b>23.1</b>	<b>22.7</b>	<b>0.4</b>	<b>22.9</b>	<b>22.5</b>	<b>0.4</b>

1) Based on MSA distributor shipments: Mass market cigars (excluding little cigars) 13 weeks and YTD to December 27, 2020 and December 29, 2019 respectively. Figures for 2019 have been restated to reflect changes in MSA store measurements.

## The full year

(Note: Comments below refer to the comparison between full year 2020 vs. full year 2019).

In local currency, sales for the Cigar product segment increased by 10 percent and operating profit increased by 17 percent. Strong volume development for HTL cigars was the key contributing factor to the sales and operating profit growth.

## Lights

### Fourth quarter highlights:

- Lights performance largely in line with prior year on an underlying basis
- One-time income in the fourth quarter of the prior year and negative currency effects impacted the reported development in SEK



### Key data

MSEK	October-December			Full year		
	2020	2019	Chg %	2020	2019	Chg %
Sales	288	323	-11	1,149	1,200	-4
Operating profit	46	100	-54	222	238	-7
Operating margin, %	16.0	31.1		19.3	19.8	
EBITDA	54	111	-51	261	282	-7
EBITDA margin, %	18.8	34.3		22.7	23.5	
Depreciation, amortization and impairment	-8	-10		-39	-44	
Capital expenditures	9	10	-8	29	43	-32

### The fourth quarter

(Note: Comments below refer to the comparison between the fourth quarter 2020 vs. the fourth quarter 2019).

Excluding currency translation effects, sales increased by 4 percent with increased sales for lighters and complementary products and a slight decline for matches. For lighters, the improved sales resulted from higher volumes and an improved product mix. For matches, quarterly phasing of shipments adversely impacted the sales and volume comparison for the fourth quarter.

Operating profit in the fourth quarter of 2019 included income of 37 MSEK relating to a positive resolution of disputes over indirect taxes (see Note 7). Adjusting for this and negative currency translation and transaction effects, operating profit increased. On an underlying basis in constant currency, operating profit grew for lighters and was in line with the prior year for matches and complementary products.

### Shipment volumes, worldwide

	October-December			Full year		
	2020	2019	Chg %	2020	2019	Chg %
Matches, billion sticks	14.4	14.5	-1	57.3	54.3	6
Lighters, million units	80.4	76.4	5	293.4	304.5	-4

### The full year

(Note: Comments below refer to the comparison between full year 2020 vs. full year 2019).

Reported sales declined by 4 percent, but excluding currency translation effects, sales grew by 7 percent. Excluding currency translation, sales increased for matches and lighters as well as for complementary products. The largest contributor to the sales growth in local currency was the Brazilian market with good performance across the portfolio. Operating profit excluding currency translation effects increased by 7 percent. The operating profit in the current year includes income related to the favorable resolution of indirect tax disputes (see Note 7) as well as a capital gain from land sale aggregating 31 MSEK while the prior full year's result also included capital gains from land and forestry sales as well as favorable resolutions of indirect tax disputes and restructuring costs in Brazil amounting to a net total of 17 MSEK. On an underlying basis, the operating profit increased sharply, with the largest contribution coming from matches but with lighters and complementary products also contributing to operating profit growth.

## Cash flow and financing

Cash flow from operating activities for the full year 2020 amounted to 5,607 MSEK (5,080). The increase was driven by the stronger EBITDA development and improved cash flow from working capital but was negatively impacted by higher tax payments. Higher tax payments primarily resulted from timing of corporate tax payments in Sweden relating to income taxes on prior fiscal years, the adverse ruling in a tax case in Sweden (see Note 7) as well as higher tax payments due to the continued increase in earnings from the US operations.

Investments in property, plant and equipment increased to 1,126 MSEK (720) principally benefitting the Smokefree product segment. During the first quarter of 2020, Swedish Match also paid the remaining consideration related to the acquisition of Gotlandssnus in 2018 of 32 MSEK. During the third quarter of 2019, Swedish Match made a 49 percent investment in a newly established distribution company, which in turn acquired two distribution businesses in central Europe. These acquisitions were financed by a loan from Swedish Match of 58 MSEK, which was partly repaid during the third quarter 2020.

Net finance cost for the year increased to 347 MSEK (247). The increase mainly relates to higher average debt, reduced financial returns on surplus cash due to lower interest rates and a one-time interest cost of 16 MSEK relating to the adverse ruling in a tax case (see Note 7).

During 2020, new bond loans of 3,702 MSEK were issued and repayments of bond loans amounted to 1,300 MSEK. During 2021, 1,849 MSEK of the bond debt falls due for payment. As of December 31, 2020, Swedish Match had 15,523 MSEK of interest-bearing debt excluding retirement benefit obligations but including the recognition of lease liabilities of 285 MSEK. The Group's interest-bearing debt, excluding retirement benefit obligations at December 31, 2019 amounted to 12,935 MSEK. For further detail on the maturity profile of the debt portfolio, please see Swedish Match's website. Net retirement benefit obligations increased to 1,411 MSEK as of December 31, 2020, from 1,360 MSEK at December 31, 2019.

As of December 31, 2020, Swedish Match had 1,500 MSEK in an unutilized revolving credit facility (RCF). During the fourth quarter Swedish Match agreed with its lenders to extend the maturity date of the RCF with one year to December 23, 2022. Cash and cash equivalents amounted to 3,411 MSEK at the end of the period, compared to 2,370 MSEK at December 31, 2019.

The net debt as of December 31, 2020 amounted to 13,523 MSEK compared to 11,925 MSEK at December 31, 2019.

## Shareholder distributions and the share

In 2020, Swedish Match paid dividends of 2,020 MSEK to its shareholders. During the year, Swedish Match repurchased 4.8 million shares for 3,099 MSEK at an average price of 642.78 SEK, following authorization from the Annual General Meetings held in 2019 and 2020. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 148.08 SEK. As per December 31, 2020 Swedish Match held 3.8 million shares, corresponding to 2.34 percent of the total number of shares. The number of shares outstanding, net, as per December 31, 2020, amounted to 158.4 million.

The Board of Directors will propose to the Annual General Meeting in April 2021 a renewed mandate to repurchase shares up to a total holding in treasury not exceeding 10 percent of the number of registered shares in the Company until the Annual General Meeting in 2022.

## Proposed dividend per share

The Board of Directors proposes to the Annual General Meeting an increased dividend, amounting to 15.00 SEK per share (12.50). The proposed dividend is in line with Swedish Match's ambition to continually grow dividend per share with a payout ratio normally within 40-60 percent of earnings per share, subject to adjustment for larger one-time items. The proposed dividend represents an increase of 20 percent from the prior year's dividend, and equals a payout ratio of 47 percent (49) of the adjusted earnings per share for the year. The proposed dividend amounts to 2,376 MSEK based on the 158.4 million shares outstanding at the end of the year.

## Proposed split of the Swedish Match share

The Board of Directors proposes to the Annual General Meeting (AGM) a 10:1 share split, implying that one Swedish Match share will be divided into 10 shares. Providing approval of the proposal at the AGM, taking place on April 13, 2021, the Board of Directors will be mandated to decide upon a record date for the share split. This date will consequently not be decided upon until after the AGM on April 13.

The proposed dividend will be paid out before a potential share split and consequently amount to the proposed 15.00 SEK per share.

## Effects from the coronavirus (COVID-19)

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, acknowledging the global scale of the impact of COVID-19 on people's health, families and communities. While longer-term effects from the pandemic are uncertain, the negative commercial, operational and financial consequences to Swedish Match have thus far been limited. On the contrary, Swedish Match estimates that, thus far and for the full year 2020, COVID-19 related changes to consumer demand and purchase patterns have contributed to increased sales for several of its businesses. For cigars, while consumer demand is estimated to have been elevated due to COVID-19, resulting in particularly strong Swedish Match volume development for HTL cigars, COVID-19 related production constraints have limited Swedish Match's ability to fully meet the demand for natural leaf varieties. Swedish Match is closely monitoring the current situation including governmental guidelines and advice from public health authorities in every country where we operate. We are proactively taking the steps that we believe are appropriate to mitigate potential impacts to our employees, our customers and our business, as well as to society. To date, other than the governmentally imposed deferral by the US of certain tax payments in the second quarter, which were paid during the third quarter, no material governmental subsidies or concessions related to COVID-19 have been sought or received by Swedish Match.

## Financial position and liquidity

In February 2020, Swedish Match issued a seven-year 300 MEUR bond (3,175 MSEK) at a fixed annual coupon of 87.5 bps. At the end of 2020, we held 3,411 MSEK in cash and cash equivalents, and a net debt position of 13,523 MSEK corresponding to a leverage of 1.9 in relation to full year 2020 EBITA. During the year, an ordinary dividend for the financial year 2019 of 2,020 MSEK was paid out to shareholders on April 9. Ahead of the dividend payment, management performed extensive liquidity stress testing, reconfirming our financial strength.

## Accounting implications

Management has reviewed significant assumptions and other facts and circumstances having an implication on the reported balances in accordance with IFRS. At this point, there are no indications that the COVID-19 pandemic will affect the long-term performance of the business such that valuation of company assets is significantly impacted.

Credit risks are regularly reviewed, with no indications of any significant changes in customers' credit terms or to customers' ability to pay outstanding invoices when they fall due.

Financial assets in several countries, particularly debt and equity securities, have been impacted by the uncertainty surrounding COVID-19 leading to valuation volatility. Some of the Group's post-employment benefit plans hold equities, whose growth is expected to outpace liabilities over the long term while providing volatility and risk in the short term. During the last nine months of 2020, pension assets have recovered the losses that were experienced in the first quarter of 2020. Updated actuarial assumptions at year end used in the measurement of our defined post-employment benefit obligations have led to declines in discount rates, which have increased the reported value of the Group's defined post-employment benefit obligations. As at December 31, 2020 the Group's net defined post-employment benefit obligations increased by 51 MSEK compared to December 2019, mainly as a result of negative remeasurement effects from lower discount rates, which were partly offset by returns on plan assets. Upon consolidation, the reported Group net post-employment liability was also impacted by positive currency translation effects mainly due to the weaker US dollar versus the Swedish krona.

The Group's derivatives and deposits are with banks backed by sound ratings. The credit risk of financial counterparties is monitored daily. Management has further assessed that there is no change in the underlying risk affecting the classification of financial instruments reported in the balance sheet. For more information on the reported balances see Note 3 – Carrying value and fair value of financial assets and liabilities.



## Full year 2021 outlook

Swedish Match expects that the trend of increased interest from consumers, industry participants and regulators in less harmful alternatives to cigarettes will continue. Our ambition is to create value for both shareholders and society by providing products that are recognized as safer alternatives to cigarettes.

For 2021, Swedish Match expects continued market growth for smokefree products, most notably driven by rapid growth of nicotine pouches. Swedish Match expects that the attractive prospects of the nicotine pouch category will further elevate competitive activity.

During 2021, Swedish Match expects to increase its investments in marketing, distribution and sales efforts in both existing and new markets to actively participate in growth opportunities. Continued capital investments by Swedish Match to further expand nicotine pouch production capacity are expected to result in capital expenditures in 2021 above the 2020 level.

While Swedish Match expects that the COVID-19 pandemic will remain a serious public health issue for a large part of 2021, Swedish Match expects its business to remain largely resilient to material negative COVID-19 related effects.

At least for the first half of 2021, Swedish Match expects a significant negative currency translation effect to affect the sales and earnings comparisons versus 2020.

The effective underlying corporate tax rate in 2021, excluding associated companies, is expected to be around 23 percent.

The Company remains committed to returning cash not needed in operations to shareholders.

## Risk factors

Swedish Match faces intense competition in all of its markets and for each of its products and such competition may increase in the future. To remain successful, the Group must develop products and brands that resonate with changing consumer trends, and price and promote its brands competitively. Restrictions on advertising and promotion may, however, make it more difficult to counteract any loss of consumer loyalty. Competitors may develop and promote new products which could be successful, and could thereby have an adverse effect on Swedish Match results of operations.

Swedish Match has substantial sales in the US, with products sourced from local US production facilities and imports from Swedish Match's production facilities in the Dominican Republic and in Sweden. Swedish Match also has operations in Brazil, Denmark, Norway, the Philippines and EMU member countries. Consequently, changes in import duties as well as in exchange rates of the euro, Norwegian krone, Danish krone, Brazilian real, the Dominican peso and in particular the US dollar may adversely affect the Group's results of operations, cash flow, financial condition or relative price competitiveness in the future. Such effects may occur both in local currencies and when such local currencies are translated into Swedish currency for purposes of financial reporting.

Regulatory developments and fiscal changes related to tobacco and other nicotine products, corporate income and other taxes, as well as to the marketing, sale and consumption of tobacco products and other products containing nicotine in the countries where the Group is operating may have an adverse effect on Swedish Match results of operations.

For a further description of risk factors affecting Swedish Match, see the Effects from the corona virus (COVID-19) above as well as Risk and risk management section in the Report of the Board of Directors in the Swedish Match annual report for 2019, available on [swedishmatch.com](http://swedishmatch.com).

## Swedish Match AB (publ)

Swedish Match AB (publ) is the Parent Company of the Swedish Match Group. The main sources of income for the Parent Company are dividends and Group contributions from subsidiaries.

Revenue from the Parent Company for the full year 2020 amounted to 27 MSEK (42). Profit before income tax amounted to 5,347 MSEK (1,872) and net profit for the year amounted to 5,033 MSEK (1,485). The higher profit before income tax compared to previous year mainly pertains to higher dividends from Group companies. The decrease in revenue compared to previous year is primarily related to reduced

sales of services to Group companies. Net Group contributions of 2,392 MSEK (2,870) were received during 2020. During the year, the Parent Company also received dividends of 4,185 MSEK (97). Following the adverse tax ruling explained in Note 7, a capital contribution of 287 MSEK was made to a subsidiary and an impairment loss on shares in subsidiaries corresponding to the same amount was recognized.

Part of the Group's treasury operations are within the operations of the Parent Company, including the major part of the Group's external borrowings. Substantially all of these loans have been hedged to fixed interest rates.

Repayment of bond loans, including loan hedge derivatives, amounted to 1,300 MSEK during the year and new bond loans of 3,702 MSEK were issued.

During the year, the Parent Company made share repurchases of 4.8 million (7.0) shares for 3,099 MSEK (2,989).

A dividend of 2,020 MSEK (1,777) has been paid during the period.

### **Forward-looking information**

This report contains forward-looking information based on the current expectation of the Swedish Match Group's management. Although management deems that the expectations presented by such forward-looking information are reasonable, no guarantee can be given that these expectations will prove correct. Accordingly, the actual future outcome could vary considerably compared to that stated in the forward-looking information, due to such factors as changed market conditions for Swedish Match's products and more general factors such as business cycles, markets and competition, unforeseen commercial or operational implications attributable to COVID-19, changes in legal requirements or other political measures, and fluctuations in exchange rates.

### **Additional information**

This report has not been reviewed by the Company's auditors. The annual report for 2020 is expected to be published in mid-March and will be available on the Company's website [swedishmatch.com](http://swedishmatch.com) and at Swedish Match's headquarters, Sveavägen 44, Stockholm. The Annual General Meeting will be held on April 13, 2021 in Stockholm, Sweden. The January-March 2021 report will be released on April 30, 2021.

Stockholm, February 10, 2021

Lars Dahlgren  
President and CEO

## Product segments summary and key ratios

### Sales

MSEK	October-December			Full year		
	2020	2019	Chg %	2020	2019	Chg %
Smokefree	2,606	2,475	5	10,651	8,914	19
Cigars	1,152	1,040	11	4,533	4,249	7
Lights	288	323	-11	1,149	1,200	-4
<b>Sales from product segments</b>	<b>4,045</b>	<b>3,838</b>	<b>5</b>	<b>16,332</b>	<b>14,363</b>	<b>14</b>
Other operations	91	95	-4	366	376	-3
<b>Sales</b>	<b>4,136</b>	<b>3,933</b>	<b>5</b>	<b>16,698</b>	<b>14,739</b>	<b>13</b>

### Operating profit

MSEK	Note	October-December			Full year		
		2020	2019	Chg %	2020	2019	Chg %
Smokefree		1,168	1,060	10	5,142	3,997	29
Cigars		481	359	34	1,796	1,577	14
Lights		46	100	-54	222	238	-7
<b>Operating profit from product segments</b>		<b>1,695</b>	<b>1,520</b>	<b>12</b>	<b>7,160</b>	<b>5,812</b>	<b>23</b>
Other operations		-45	-54		-169	-137	
Impairment charge - European chewing tobacco business	5	-	-367		-	-367	
<b>Operating profit</b>		<b>1,650</b>	<b>1,098</b>	<b>50</b>	<b>6,991</b>	<b>5,307</b>	<b>32</b>

### Operating margin by product segment

Percent	October-December			Full year	
	2020	2019		2020	2019
Smokefree	44.8	42.8		48.3	44.8
Cigars	41.7	34.5		39.6	37.1
Lights	16.0	31.1		19.3	19.8
<b>Operating margin from product segments</b>	<b>41.9</b>	<b>39.6</b>		<b>43.8</b>	<b>40.5</b>

### EBITDA by product segment

MSEK	October-December			Full year		
	2020	2019	Chg %	2020	2019	Chg %
Smokefree	1,269	1,159	10	5,539	4,353	27
Cigars	503	381	32	1,883	1,662	13
Lights	54	111	-51	261	282	-7
<b>EBITDA from product segments</b>	<b>1,826</b>	<b>1,651</b>	<b>11</b>	<b>7,684</b>	<b>6,296</b>	<b>22</b>

### EBITDA margin by product segment

Percent	October-December			Full year	
	2020	2019		2020	2019
Smokefree	48.7	46.8		52.0	48.8
Cigars	43.6	36.6		41.5	39.1
Lights	18.8	34.3		22.7	23.5
<b>EBITDA margin from product segments</b>	<b>45.1</b>	<b>43.0</b>		<b>47.0</b>	<b>43.8</b>

## Key ratios

	Full year	
	2020	2019
Operating margin from product segments, %	43.8	40.5
Operating margin, % <sup>1)</sup>	41.9	36.0
Net debt, MSEK	13,523	11,925
Investments in property, plant and equipment, MSEK	1,126	720
Depreciation, amortization and impairments, MSEK <sup>1)</sup>	588	915
EBITA, MSEK	7,068	5,742
EBITA interest cover	21.4	23.4
Net debt/EBITA	1.9	2.1
Adjusted earnings per share, basic and diluted, SEK <sup>2)</sup>	32.16	25.41
<i>Share data</i>		
Number of shares outstanding at end of period	158,407,083	163,228,313
Average number of shares outstanding	160,866,537	167,779,742

1) Including a non-cash impairment charge for the European chewing tobacco business of 367 MSEK recognized as a larger one-time item during the fourth quarter 2019, see Note 5.

2) Adjusted earnings per share in 2020 excludes a tax charge including interest of 286 MSEK related to an adverse ruling in a tax case in Sweden recognized in the third quarter 2020. Adjusted earnings per share in 2019 excludes a larger one-time item during the fourth quarter 2019, which pertains to a non-cash impairment charge for the European chewing tobacco business.

## Financial statements

### Condensed consolidated income statement

MSEK	Note	October-December		Chg %	Full year		Chg %
		2020	2019		2020	2019	
Sales, including tobacco tax		5,099	4,877		20,451	18,222	
Less tobacco tax		-962	-944		-3,753	-3,483	
<b>Sales</b>	2	<b>4,136</b>	<b>3,933</b>	<b>5</b>	<b>16,698</b>	<b>14,739</b>	<b>13</b>
Cost of goods sold		-1,460	-1,451		-5,751	-5,376	
<b>Gross profit</b>		<b>2,677</b>	<b>2,482</b>	<b>8</b>	<b>10,947</b>	<b>9,363</b>	<b>17</b>
Selling and admin. expenses		-1,031	-1,020		-3,968	-3,694	
Share of profit/loss in associated companies		4	4		13	5	
Impairment charge – European chewing tobacco business	5	-	-367		-	-367	
<b>Operating profit</b>		<b>1,650</b>	<b>1,098</b>	<b>50</b>	<b>6,991</b>	<b>5,307</b>	<b>32</b>
Finance income		13	25		49	95	
Finance costs		-92	-83		-396	-343	
Net finance cost		-80	-59		-347	-247	
<b>Profit before income tax</b>		<b>1,570</b>	<b>1,039</b>	<b>51</b>	<b>6,644</b>	<b>5,060</b>	<b>31</b>
Income tax expense		-326	-283		-1,756	-1,165	
<b>Profit for the period</b>		<b>1,244</b>	<b>756</b>	<b>65</b>	<b>4,888</b>	<b>3,896</b>	<b>25</b>
<i>Attributable to:</i>							
Equity holders of the Parent		1,244	756		4,888	3,895	
Non-controlling interests		0	0		1	0	
<b>Profit for the period</b>		<b>1,244</b>	<b>756</b>	<b>65</b>	<b>4,888</b>	<b>3,896</b>	<b>25</b>
Earnings per share, basic and diluted, SEK	4	7.82	4.62		30.38	23.22	

## Condensed consolidated statement of comprehensive income

MSEK	October-December		Full year	
	2020	2019	2020	2019
<b>Profit for the period</b>	<b>1,244</b>	<b>756</b>	<b>4,888</b>	<b>3,896</b>
<i>Other comprehensive income that may be reclassified to the income statement</i>				
Translation differences related to foreign operations	-719	-342	-1,120	191
Effective portion of changes in fair value of cash flow hedges	-19	20	-51	122
Income tax relating to reclassifiable components of other comprehensive income	4	-4	11	-25
<b>Sub-total, net of tax for the period</b>	<b>-734</b>	<b>-327</b>	<b>-1,160</b>	<b>288</b>
<i>Other comprehensive income that will not be reclassified to the income statement</i>				
Actuarial gains/losses attributable to pensions, incl. payroll tax	124	143	-132	-168
Income tax relating to non-reclassifiable components of other comprehensive income	-27	-31	33	38
<b>Sub-total, net of tax for the period</b>	<b>97</b>	<b>111</b>	<b>-99</b>	<b>-130</b>
<b>Total comprehensive income for the period</b>	<b>607</b>	<b>540</b>	<b>3,629</b>	<b>4,054</b>
<i>Attributable to:</i>				
Equity holders of the Parent	607	540	3,628	4,053
Non-controlling interests	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>607</b>	<b>540</b>	<b>3,629</b>	<b>4,054</b>

## Condensed consolidated balance sheet

MSEK	Note	December 31, 2020	December 31, 2019
Intangible assets		2,237	2,355
Property, plant and equipment		3,633	3,255
Right-of-use assets		278	255
Investments in associated companies		42	42
Other non-current assets and operating receivables		20	18
Other non-current financial assets and receivables	3,8	1,556	1,826
<b>Total non-current assets</b>		<b>7,765</b>	<b>7,750</b>
Other current financial receivables	3,8	219	195
Current operating assets and receivables	3	3,732	3,905
Cash and cash equivalents	3	3,411	2,370
<b>Total current assets</b>		<b>7,362</b>	<b>6,471</b>
Assets held for sale <sup>1)</sup>		28	16
<b>Total assets</b>		<b>15,155</b>	<b>14,237</b>
Equity attributable to equity holders of the Parent		-7,814	-6,324
Non-controlling interests		16	16
<b>Total equity</b>		<b>-7,798</b>	<b>-6,308</b>
Non-current financial provisions		1,268	1,227
Non-current loans	3	13,514	12,130
Other non-current financial liabilities	3,8	1,926	1,626
Other non-current operating liabilities	3	485	434
<b>Total non-current liabilities</b>		<b>17,194</b>	<b>15,417</b>
Current loans	3	1,850	1,300
Other current financial liabilities	3,8	653	715
Other current operating liabilities	3	3,257	3,112
<b>Total current liabilities</b>		<b>5,759</b>	<b>5,127</b>
<b>Total liabilities</b>		<b>22,953</b>	<b>20,544</b>
<b>Total equity and liabilities</b>		<b>15,155</b>	<b>14,237</b>

1) Assets held for sale refers to land and forestry assets. The fair value less costs to sell are not expected to be lower than the carrying value.



## Condensed consolidated cash flow statement

MSEK	January-December	
	2020	2019
<i>Operating activities</i>		
<b>Profit before income taxes</b>	<b>6,644</b>	<b>5,060</b>
Share of profit/loss in associated companies	-13	-5
Dividend received from associated companies	10	1
Adjustments for non-cash items etc. <sup>1)</sup>	661	938
Income tax paid	-2,006	-888
<b>Cash flow from operating activities before changes in working capital</b>	<b>5,296</b>	<b>5,106</b>
Changes in working capital	311	-26
<b>Net cash generated from operating activities</b>	<b>5,607</b>	<b>5,080</b>
<i>Investing activities</i>		
Purchase of property, plant and equipment	-1,126	-720
Proceeds from sale of property, plant and equipment	39	10
Purchase of intangible assets	-63	-33
Acquisition of subsidiaries <sup>2)</sup>	-32	-
Investments in associated companies	-	-13
Changes in financial receivables in associated companies	9	-58
Changes in financial receivables etc.	0	0
<b>Net cash used in investing activities</b>	<b>-1,173</b>	<b>-815</b>
<i>Financing activities</i>		
Proceeds from borrowings	3,702	999
Repayment of borrowings	-1,300	-1,092
Dividend paid to equity holders of the Parent	-2,020	-1,777
Repurchase of own shares	-3,099	-2,989
Lease payments	-81	-94
Realized exchange gain/losses on financial instruments	-320	156
Other	0	-7
<b>Net cash used in financing activities</b>	<b>-3,118</b>	<b>-4,804</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>1,315</b>	<b>-539</b>
Cash and cash equivalents at the beginning of the period	2,370	2,886
Effect of exchange rate fluctuations on cash and cash equivalents	-274	23
<b>Cash and cash equivalents at the end of the period</b>	<b>3,411</b>	<b>2,370</b>

1) Non-cash items etc. mainly pertain to depreciation, amortization, accrued interest and change in pension provisions.

2) Refers to remaining consideration related to the acquisition of Gotlandssnus in 2018.

### Condensed consolidated statement of changes in equity

MSEK	Equity attributable to holders of the Parent	Non- controlling interests	Total equity
<b>Equity at January 1, 2019</b>	<b>-5,611</b>	<b>16</b>	<b>-5,595</b>
Profit for the period	3,895	0	3,896
Other comprehensive income, net of tax for the period	158	0	158
<b>Total comprehensive income for the period</b>	<b>4,053</b>	<b>0</b>	<b>4,054</b>
Dividend	-1,777	0	-1,777
Repurchase of own shares	-2,989	-	-2,989
Cancellation of shares	-13	-	-13
Bonus issues	13	-	13
<b>Equity at December 31, 2019</b>	<b>-6,324</b>	<b>16</b>	<b>-6,308</b>
<b>Equity at January 1, 2020</b>	<b>-6,324</b>	<b>16</b>	<b>-6,308</b>
Profit for the period	4,888	1	4,888
Other comprehensive income, net of tax for the period	-1,259	0	-1,260
<b>Total comprehensive income for the period</b>	<b>3,628</b>	<b>0</b>	<b>3,629</b>
Dividend	-2,020	0	-2,020
Repurchase of own shares	-3,099	-	-3,099
Cancellation of shares	-18	-	-18
Bonus issues	18	-	18
<b>Equity at December 31, 2020</b>	<b>-7,814</b>	<b>16</b>	<b>-7,798</b>

### Objectives, policies and processes for managing capital

The basis for determining dividends and repurchasing of own shares is the equity of the Parent Company. Total equity in the Parent Company as per December 31, 2020 amounted to 11,843 MSEK and distributable earnings amounted to 11,454 MSEK.

In addition, before any distribution of capital to shareholders is determined, the financial position of the Group is carefully analyzed. As part of this analysis, the Board of Directors of Swedish Match has adopted certain financial guidelines and risk management procedures to ensure that the Parent Company and the Group maintain adequate liquidity to meet reasonably foreseeable requirements taking into account the maturity profile of debt obligations.

The dividend policy of the Company is a pay-out ratio of 40 to 60 percent of the earnings per share, subject to adjustments for larger one-time items. The Board has further determined that the financial policy should be, for the Group, to strive to maintain a net debt that does not exceed 3 times EBITA. The Board continually reviews the financial position of the Company, and the actual level of net debt is assessed against anticipated future profitability and cash flow, investment and expansion plans, acquisition opportunities as well as the development of interest rates and credit markets. Excess funds are returned to shareholders through dividends and share repurchases. For further information on distribution of capital to the shareholders during the period see section *Shareholder distributions and the share*.

## Condensed Parent Company income statement

MSEK	January-December	
	2020	2019
Sales	27	42
Administrative expenses	-275	-303
<b>Operating loss</b>	<b>-248</b>	<b>-261</b>
Result from participation in Group companies	3,898	97
Finance income	0	0
Finance costs	-345	-293
Net finance cost	-345	-293
<b>Profit/Loss after financial items</b>	<b>3,305</b>	<b>-458</b>
Appropriations <sup>1)</sup>	2,042	2,330
<b>Profit before income tax</b>	<b>5,347</b>	<b>1,872</b>
Income tax	-314	-387
<b>Profit for the period</b>	<b>5,033</b>	<b>1,485</b>

1) Appropriations consists of tax allocation reserve and Group contributions.

## Condensed Parent Company statement of comprehensive income

MSEK	January-December	
	2020	2019
<b>Profit for the period</b>	<b>5,033</b>	<b>1,485</b>
<i>Other comprehensive income that may be reclassified to the income statement</i>		
Effective portion of changes in fair value of cash flow hedges	-51	122
Income tax relating to components of other comprehensive income	11	-25
<b>Other comprehensive income/loss, net of tax for the period</b>	<b>-41</b>	<b>97</b>
<b>Total comprehensive income for the period</b>	<b>4,992</b>	<b>1,582</b>

## Condensed Parent Company balance sheet

MSEK	December 31, 2020	December 31, 2019
Intangible and tangible assets	0	1
Non-current financial assets	31,675	31,952
Current assets	2,555	2,980
Cash and other current deposits	250	400
<b>Total assets</b>	<b>34,481</b>	<b>35,332</b>
<b>Equity</b>	<b>11,843</b>	<b>11,970</b>
<b>Untaxed reserves</b>	<b>2,675</b>	<b>2,325</b>
Provisions	93	98
Non-current liabilities	13,726	12,132
Current liabilities	6,143	8,807
<b>Total liabilities</b>	<b>19,962</b>	<b>21,037</b>
<b>Total equity and liabilities</b>	<b>34,481</b>	<b>35,332</b>

### Note 1 – Accounting principles

This report for the Group is prepared in accordance with the Accounting Standard IAS 34 Interim Financial Reporting and applicable rules in the Annual Accounts Act. The report for the Parent Company for the same period is prepared in accordance with the Annual Accounts Act, Chapter 9 and RFR 2. Additional disclosures as required under IAS 34.16A may be found within the financial statements and related notes and in the narrative text of the interim financial report.

As of January 2020, Swedish Match has changed the composition of the Group's reportable product segments. For more information, see below section "Change in the Group's reportable segments as of January 1, 2020".

There are no changes to IFRS standards, amendments and interpretations of existing standards applicable as of January 1, 2020 that have had an effect on the Group's financial result or position. The accounting principles and basis of calculation in this report are the same as in the annual report for 2019.

## Change in the Group's reportable segments as of January 1, 2020

As of January 1, 2020, Swedish Match has changed the internal reporting structure to improve alignment of monitoring the performance and financial reporting with the Group's strategy and product portfolio. Significant investments in smokefree products, including the development of nicotine pouch products and recent business acquisitions, have driven a change in management's evaluation of product segment performance and allocation of resources to operations. Consequently, the composition of the Group's reportable product segments has changed. The Group's new reportable segments which are expected to better reflect the performance of Swedish Match's different product categories are as follows: Smokefree, Cigars and Lights. The new product segment Smokefree represents an aggregation of the Group's entire Smokefree operations, i.e. snus, moist snuff and nicotine pouches (previously reported under the product segment Snus and moist snuff) as well as all chewing tobacco operations - US chewing tobacco, chew bags and tobacco bits (previously reported under the product segment Other tobacco products). The new product segment Cigars represents the cigar operations, substantially relating to US mass market cigars. In addition, as of January 1, 2020, a new allocation model has been implemented relating to certain central establishment costs for new businesses to be absorbed by product segments. This change has positively affected the result of Other operations and consequently negatively affected the result from relevant product segments. In this report, the financial information of prior periods affected by the implementation of the new product segments and the new allocation model of certain central costs have been restated accordingly.

## Restatement of prior period financial information

COVID-19-related effects on the cigar supply chain have resulted in unusually low inventory levels of cigars manufactured and shipped from the production facility in the Dominican Republic during the year. In conjunction with the year end reconciliation processes, an accounting error relating to elimination of internal profits in inventory that understated the previously reported operating profit for the Group and for the product segment Cigars amounting to 63 MSEK (7 MUSD) for the first nine months of 2020 has been discovered and corrected. The operating profit for the Group and for the product segment Cigars have been restated for Q1 through Q3 2020 and the corrected operating profits exceed the previously reported levels by 7 MSEK for the first quarter, by 26 MSEK for the second quarter and by 30 MSEK for the third quarter. Periods before 2020 were not affected by the accounting error and consequently have not been restated.

The below section provides restated information of the key ratios for the first nine months of 2020 that have been affected by the above mentioned adjustment.

Restated quarterly financials affected by the adjustments are presented on pages 30-31 in this report.

### Key ratios (restated)

	Jan-Mar	2020 Jan-Jun	Jan-Sep
<b>Cigars</b>			
Operating profit, MSEK	438	816	1,316
Operating margin, %	38.8	37.2	38.9
<b>Group</b>			
Operating profit, MSEK	1,601	3,294	5,341
Operating margin from product segments, %	42.1	42.5	44.5
Operating margin, %	39.7	40.4	42.5
EBITA, MSEK	1,622	3,334	5,401
EBITA interest cover	28.4	23.4	22.1
Net debt/EBITA	1.9	2.1	1.9
Adjusted earnings per share, basic and diluted, SEK <sup>1)</sup>	7.18	14.95	24.34
<b>Share data</b>			
Number of shares outstanding at end of period	161,592,234	160,819,315	159,737,141
Average number of shares outstanding	162,597,883	161,970,840	161,461,756

1) Adjusted earnings per share in 2020 excludes a tax charge including interest of 286 MSEK related to an adverse ruling in a tax case in Sweden recognized in the third quarter 2020.

## Note 2 – Disaggregation of revenue

The main revenue streams for the Swedish Match Group arise from sale of goods manufactured by the Group. Within Lights, a small portion of the revenue also pertains to the distribution of third party products. Revenue within Other operations mainly pertains to income from logistics services for delivery of third party products to retail customers. Revenue for the sale of goods and logistics services are recognized at the point when the control of the promised good or service is transferred to the customer at the expected consideration to be received for such delivery. The expected consideration recognized reflects estimates of potential outcome of variable considerations as well as expected reimbursements for product returns.

### Sales – October to December

MSEK	Segments								Other operations		Group	
	Smokefree		Cigars		Lights		Total segments					
	Oct-Dec		Oct-Dec		Oct-Dec		Oct-Dec		Oct-Dec		Oct-Dec	
Primary geographical markets	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Scandinavia	1,217	1,251	-	-	16	18	1,234	1,269	91	95	1,325	1,363
The US	1,361	1,174	1,152	1,040	29	14	2,541	2,228	-	-	2,541	2,228
Other markets	28	50	-	0	243	291	271	342	-	-	271	342
<b>Total sales</b>	<b>2,606</b>	<b>2,475</b>	<b>1,152</b>	<b>1,040</b>	<b>288</b>	<b>323</b>	<b>4,045</b>	<b>3,838</b>	<b>91</b>	<b>95</b>	<b>4,136</b>	<b>3,933</b>

### Sales – January to December

MSEK	Segments								Other operations		Group	
	Smokefree		Cigars		Lights		Total segments					
	Jan-Dec		Jan-Dec		Jan-Dec		Jan-Dec		Jan-Dec		Jan-Dec	
Primary geographical markets	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Scandinavia	4,675	4,624	-	-	51	49	4,726	4,673	366	376	5,092	5,049
The US	5,818	4,082	4,533	4,247	100	71	10,451	8,399	-	-	10,451	8,399
Other markets	158	208	-	1	997	1,080	1,155	1,290	-	-	1,155	1,290
<b>Total sales</b>	<b>10,651</b>	<b>8,914</b>	<b>4,533</b>	<b>4,249</b>	<b>1,149</b>	<b>1,200</b>	<b>16,332</b>	<b>14,363</b>	<b>366</b>	<b>376</b>	<b>16,698</b>	<b>14,739</b>



### Note 3 – Carrying value and fair value of financial assets and liabilities

Swedish Match applies IFRS 9 to classify and measure financial instruments.

The following valuation techniques of the fair value hierarchy are used in determining the fair values of the financial instruments:

Level 1 - Quoted prices (unadjusted) in active markets

Level 2 - Inputs other than quoted prices included within level 1 that are observable, either directly or indirectly

Level 3 - Inputs that are not based on observable market data

The following table shows carrying value and fair value for financial instruments as of December 31, 2020.

#### Carrying value and fair value

MSEK	Financial instruments measured at FVTPL	Financial assets measured at amortized cost	Other financial liabilities	Cash flow hedges measured at FVOCI	Other receivables and liabilities	Total carrying value	Estimated fair value
Trade receivables	-	1,577	-	-	-	1,577	1,577
Other non-current financial receivables	-	3	-	459	473	935	935
Other current assets and financial receivables	1	69	-	-	246	315	315
Prepaid expenses and accrued income <sup>1)</sup>	-	-	-	1	115	117	117
Cash and cash equivalents	-	3,411	-	-	-	3,411	3,411
<b>Total assets</b>	<b>1</b>	<b>5,060</b>	<b>-</b>	<b>460</b>	<b>834</b>	<b>6,355</b>	<b>6,355</b>
Loans and borrowings	-	-	15,364	-	-	15,364	15,713
Other non-current financial liabilities	-	-	208	213	45	466	466
Other current liabilities	258	-	77	-	1,617	1,952	1,952
Accrued expenses and deferred income <sup>1)</sup>	-	-	122	46	850	1,018	1,018
Trade payables	-	-	409	-	-	409	409
<b>Total liabilities</b>	<b>258</b>	<b>-</b>	<b>16,180</b>	<b>259</b>	<b>2,512</b>	<b>19,209</b>	<b>19,558</b>

1) Accrued interest income on cash flow hedges is reported in the balance sheet as *Prepaid expenses and accrued income* and accrued interest expense on cash flow hedges is reported as *Accrued expenses and deferred income*.

#### Fair value measurement by level

MSEK	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	461	-	461
Derivative financial liabilities	-	517	-	517

The following table shows carrying value and fair value for financial instruments per December 31, 2019.

### Carrying value and fair value

MSEK	Financial instruments measured at FVTPL	Financial assets measured at amortized cost	Other financial liabilities	Cash flow hedges measured at FVOCI	Other receivables and liabilities	Total carrying value	Estimated fair value
Trade receivables	-	1,719	-	-	-	1,719	1,719
Other non-current financial receivables	-	20	-	756	475	1,251	1,251
Other current assets and financial receivables	-	91	-	-	284	375	375
Prepaid expenses and accrued income <sup>1)</sup>	-	-	-	2	108	110	110
Cash and cash equivalents	-	2,370	-	-	-	2,370	2,370
<b>Total assets</b>	<b>-</b>	<b>4,200</b>	<b>-</b>	<b>758</b>	<b>867</b>	<b>5,825</b>	<b>5,825</b>
Loans and borrowings	-	-	13,430	-	-	13,430	13,661
Other non-current financial liabilities	-	-	172	2	50	224	224
Other current liabilities	91	-	113	-	1,654	1,859	1,859
Accrued expenses and deferred income <sup>1)</sup>	-	-	106	19	800	926	926
Trade payables	-	-	365	-	-	365	365
<b>Total liabilities</b>	<b>91</b>	<b>-</b>	<b>14,186</b>	<b>21</b>	<b>2,504</b>	<b>16,804</b>	<b>17,035</b>

1) Accrued interest income on cash flow hedges is reported in the balance sheet as *Prepaid expenses and accrued income* and accrued interest expense on cash flow hedges is reported as *Accrued expenses and deferred income*.

### Fair value measurement by level

MSEK	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	758	-	758
Derivative financial liabilities	-	112	-	112

No transfer in or out of level 2 has been made during the fourth quarter 2020. The recognized amounts are regarded as reasonable estimates for all items measured at carrying value in the balance sheet, except for loans and borrowings, as these amounts have a long time to maturity. The fair value of loans and borrowings differ from their carrying value as a consequence of changes in the market interest rates. Items not valued at fair value in the balance sheet are measured at amortized cost. The total nominal amount of outstanding derivatives was 14,035 MSEK (9,602) of which 9,991 MSEK (6,304) was in cash flow hedges consisting of cross currency and interest rate swaps related to bond loans. The remaining 4,044 MSEK (3,298) consisted of currency swaps related to the conversion of surplus cash in US dollars to Swedish kronor. Methodologies utilized in the valuation of financial instruments can be found in Note 1 in the annual report for 2019.

### Note 4 – Earnings per share

The following table provides the components used in calculating earnings per share. The quarterly earnings per share are calculated by deducting the year to date earnings per share for the preceding reporting period from the current period's year to date earnings per share.

### Earnings per share

Basic and diluted	October-December		Full year	
	2020	2019	2020	2019
Profit for the period attributable to equity holders of the Parent, MSEK	1,244	756	4,888	3,895
Profit for the period attributable to equity holders of the Parent, excl. larger one-time items, MSEK	1,244	1,123	5,174	4,263
Weighted average number of shares outstanding	159,080,881	164,651,651	160,866,537	167,779,742
Earnings per share, SEK	7.82	4.62	30.38	23.22
Adjusted earnings per share, SEK <sup>1)</sup>	7.82	6.81	32.16	25.41

1) Adjusted earnings per share in 2020 excludes a tax charge including interest of 286 MSEK related to adverse ruling in a tax case in Sweden recognized in the third quarter 2020. Adjusted earnings per share in 2019 excludes a larger one-time item during the fourth quarter 2019, which pertains to a non-cash impairment charge for the European chewing tobacco business.

### Note 5 – Impairment charge during 2019 in the European chewing tobacco business

Following the judgement by the Bavarian Administrative Court and in view of changed market dynamics in certain markets, management reassessed the future potential of chew bags in its current form. The updated assumptions in the impairment testing resulted in an impairment charge of 259 MDKK, corresponding to 367 MSEK, for Swedish Match's European chewing tobacco business. This impairment charge was recognized in the fourth quarter of 2019.

For more information on the impairment charge and the Group's accounting principles and methodology for impairment testing, see Note 1 and Note 12 in the annual report for 2019.

### Note 6 – Change in expected useful life for trademark Thunder

Following the judgement in relation to the legality of certain V2 Tobacco's *Thunder* chew bag products by the Bavarian Administrative Court and in view of changed market dynamics in certain markets, Swedish Match has reassessed the estimated economic useful life of the *Thunder* trademark. The updated assessment indicated that the *Thunder* trademark's economical useful life has changed from indefinite to a definite economical useful life of 20 years. The revised assessment has been made to better reflect the estimated periods during which Swedish Match will benefit from the future cashflows from products under the *Thunder* trademark. The updated economic useful life of 20 years has been applied as of January 1, 2020. The effect from this change on Swedish Match's financial statements for the full year 2020 was increased amortization expenses of 17 MSEK recognized in the Smokefree product segment.

### Note 7 – Tax related contingencies

#### Tax audits in Sweden

During 2017, the Swedish Tax Agency performed tax audits in a number of Swedish Match's Swedish group companies. After completing the audits, the Swedish Tax Agency decided to deny certain cost deductions in two cases. Both cases were appealed by Swedish Match but the cases were ruled in favor of the Tax Agency by the County Administrative Court in Stockholm in May 2019 and January 2020 respectively. Swedish Match subsequently appealed to the Administrative Court of Appeals in both cases. In one of the cases, a Court judgment in August 2020 was in favor of the Tax Agency. Swedish Match has applied for leave to appeal that case to the Supreme Administrative Court but has meanwhile paid the tax charges of in total 270 MSEK and related interest costs of 16 MSEK. The Court of Appeal has, in the other case, decided to hold the judgment pending the judgment in a similar case which has been granted leave at the Supreme Administrative Court which may constitute a precedent to Swedish Match's case. The tax charge in this case amounts to 43 MSEK excluding interest.

#### Resolution of indirect tax disputes in Brazil

Following the favorable decision on the court-cases for the exclusion of duplicative indirect taxes (principally valued added taxes) in Brazil in 2019, further assessment of duplicative indirect taxes within the Brazilian operations have been made. During 2020, an operating gain of 15 MSEK (10 MSEK, net of taxes on income) pertaining to additional indirect tax recoveries has been recognized within the Lights product segment. The tax credits relate to purchases of certain manufacturing equipment, goods and services over the past 5 years. During the fourth quarter of 2019, an operating gain of 37 MSEK (25 MSEK, net of taxes on income) was recognized pertaining to the favorable decision on three court-cases for recovery of indirect taxes in Brazil. Under the existing disputes, Swedish Match may be entitled to incremental recoveries aggregating 58 MSEK (38 MSEK, net of taxes on income) that is dependent on the final ruling by the Brazilian Supreme court. The court's decision has been postponed due to the COVID-19 pandemic and a new date for the resolution has not yet been announced.

## Note 8 – Alternative performance measures

Swedish Match presents several financial measures that are outside IFRS definitions (Alternative performance measures, according to ESMA's guidelines) with the aim of enabling effective evaluation of the Group's financial position and performance for investors and for the Group's management. This means that these measures are not always comparable with measures used by other companies and shall therefore be considered as a complement to measures defined according to IFRS. Swedish Match applies these alternative key ratios consistently over time. The key ratios are alternative performance measures according to ESMA guidelines unless otherwise stated.

KEY RATIO	DEFINITION/CALCULATION	PURPOSE
<b>SALES FROM PRODUCT SEGMENTS</b>	Sales from reportable segments, which excludes Other operations	Used as a measure of sales performance of the core commercial businesses of Swedish Match, excluding the impact of Other operations (incl. Swedish distribution function).
<b>OPERATING PROFIT/LOSS (EBIT) FROM PRODUCT SEGMENTS</b>	Operating profit from reportable segments, excluding Other operations and larger one-time items	Used as a measure of operating performance of the core commercial businesses of Swedish Match, excluding the impact of Other operations (incl. Swedish distribution function) and items which impact comparability between periods
<b>OPERATING MARGIN FROM PRODUCT SEGMENTS (%)</b>	$100 \times \text{Operating profit from product segments} \div \text{Sales from product segments}$	Used as a measure of operational profitability of the core commercial businesses of Swedish Match excluding the impact of Other operations (incl. Swedish distribution function).
<b>LARGER ONE-TIME ITEMS</b>	Larger one-time items are separately disclosed non-recurring income and cost which usually refer to larger capital gains or losses on divestments, larger asset impairments and restructuring costs and other larger non-recurring income and costs recognized during the period	Used to provide information regarding items which impact comparability between periods.
<b>EBITDA</b>	Profit for the period excluding larger one-time items, net finance cost, income tax, depreciation, amortization and impairments of tangible, intangible and right-of-use assets	Used as an alternative measure of operating performance that is not impacted by historical investments and the related accounting treatment of such investments as well as items which impact comparability between periods.
<b>EBITDA FROM PRODUCT SEGMENTS</b>	Operating profit from product segments excluding depreciation, amortization and impairments of tangible, intangible and right-of-use assets	Used as an alternative measure of operating performance for the core commercial businesses of Swedish Match, that is not impacted by historical investments and the related accounting treatment of such investments as well as items which impact comparability between periods.
<b>EBITDA MARGIN (%)</b>	$100 \times \text{EBITDA} \div \text{Sales}$	Used as an alternative measure of operating profitability.
<b>EBITDA MARGIN FROM PRODUCT SEGMENTS (%)</b>	$100 \times \text{EBITDA from product segments} \div \text{Sales from product segments}$	Used as an alternative measure of operating profitability for the core commercial businesses of Swedish Match.
<b>PROFIT FOR THE PERIOD EXCLUDING LARGER ONE-TIME ITEMS</b>	Profit for the period excluding larger one-time items	Used as an alternative measure of profit for the period of the ongoing business which is not affected by items which impact comparability between periods.
<b>EBITA</b>	Profit for the period excluding larger one-time items, net finance cost, tax, amortization and impairments of intangible assets	Used as a measure of operating performance relative to the financial obligations of the Group.
<b>EBITA 12 months rolling</b>	The aggregated profit excluding larger one-time items, net finance cost, tax, amortization and impairments of intangible assets for the 12-month period preceding the closing date	Used as a measure of operating performance relative to the financial obligations of the Group.
<b>EBITA INTEREST COVER</b>	$\text{EBITA} \div (\text{Interest income} - \text{interest expense})$	Used as a measure of the ability to fund interest expense.
<b>NET DEBT</b>	Current and non-current loans, adjusted for components of derivatives (assets and liabilities) relating to these loans + net provisions for pensions and similar obligations + current and non-current lease liabilities – cash and cash equivalents and other short-term investments	Used as a measure of net financial obligations.
<b>NET DEBT/EBITA</b>	$\text{Net debt} \div \text{EBITA 12 months rolling}$	Used as an indication of the duration (in years) required to fund existing net financial obligations with free cash flows from the ongoing business.
<b>ADJUSTED EARNINGS PER SHARE</b>	$\text{Profit for the period excluding larger one-time items net of tax} \div \text{Average number of shares outstanding}$	Used as an alternative measure of earnings per share which is not affected by items which impact comparability between periods.

## EBITA and EBITDA

MSEK

	October-December		Full year	
	2020	2019	2020	2019
<b>Profit for the period</b>	<b>1,244</b>	<b>756</b>	<b>4,888</b>	<b>3,895</b>
Income tax expense	326	283	1,756	1,165
Net finance cost	80	59	347	247
<b>Operating profit for the period</b>	<b>1,650</b>	<b>1,098</b>	<b>6,991</b>	<b>5,307</b>
Amortization and impairment of intangible assets <sup>1)</sup>	18	19	77	435
<b>EBITA</b>	<b>1,667</b>	<b>1,484</b>	<b>7,068</b>	<b>5,742</b>
Depreciation and impairment of tangible and right-of-use assets	129	130	511	480
<b>EBITDA</b>	<b>1,796</b>	<b>1,615</b>	<b>7,580</b>	<b>6,222</b>

1) Including a non-cash impairment charge on goodwill in the European chewing tobacco business of 367 MSEK reported as a larger one-time item in the fourth quarter 2019.

## EBITDA and EBITDA margin from product segments

MSEK

	October-December		Full year	
	2020	2019	2020	2019
<b>Operating profit for the period</b>	<b>1,650</b>	<b>1,098</b>	<b>6,991</b>	<b>5,307</b>
Less operating loss from Other operations	45	54	169	137
Less larger one-time items	-	367	-	367
<b>Operating profit from product segments</b>	<b>1,695</b>	<b>1,520</b>	<b>7,160</b>	<b>5,812</b>
Amortization, depreciation and impairment of intangible, tangible and right-of-use assets <sup>1)</sup>	146	150	588	548
Less amortization, depreciation and impairment of intangible, tangible and right-of-use assets for Other operations	-15	-19	-65	-64
<b>EBITDA from product segments</b>	<b>1,826</b>	<b>1,651</b>	<b>7,684</b>	<b>6,296</b>
Sales from product segments	4,045	3,838	16,332	14,363
<b>EBITDA margin from product segments, %</b>	<b>45.1</b>	<b>43.0</b>	<b>47.0</b>	<b>43.8</b>

1) Excluding a non-cash impairment charge on goodwill in the European chewing tobacco business of 367 MSEK reported as a larger one-time item in the fourth quarter 2019.

## Larger one-time items

MSEK

	October-December		Full year	
	2020	2019	2020	2019
Impairment charge – European chewing tobacco business	-	-367	-	-367
<b>Total larger one-time items in operating profit</b>	<b>-</b>	<b>-367</b>	<b>-</b>	<b>-367</b>
Tax charge including interest related to an adverse ruling in a tax case in Sweden	-	-	-286	-
<b>Total larger one-time items in net profit</b>	<b>-</b>	<b>-</b>	<b>-286</b>	<b>-367</b>

## Adjusted earnings per share

Basic and diluted

	October-December		Full year	
	2020	2019	2020	2019
Profit for the period attributable to equity holders of the Parent, MSEK	1,244	756	4,888	3,895
Impairment charge – European chewing tobacco business, MSEK	-	367	-	367
Tax charge including interest, MSEK	-	-	286	-
<b>Profit for the period attributable to equity holders of the Parent, excl. larger one-time items, MSEK</b>	<b>1,244</b>	<b>1,123</b>	<b>5,174</b>	<b>4,263</b>
Weighted average number of shares outstanding	159,080,881	164,651,651	160,866,537	167,779,742
<b>Adjusted earnings per share, SEK</b>	<b>7.82</b>	<b>6.81</b>	<b>32.16</b>	<b>25.41</b>

### EBITA interest cover

MSEK	Full year	
	2020	2019
EBITA	7,068	5,742
Interest income	49	91
Interest expense	-379	-336
<b>EBITA interest cover</b>	<b>21.4</b>	<b>23.4</b>

### Net debt/EBITA

MSEK	Full year	
	2020	2019
Net debt	13,523	11,925
EBITA 12 months rolling	7,068	5,742
<b>Net debt/EBITA</b>	<b>1.9</b>	<b>2.1</b>

### Net debt

MSEK	Full year	
	2020	2019
Non-current loans	13,514	12,130
Current loans	1,850	1,300
Components of derivatives (liabilities) <sup>1)</sup>	420	91
Components of derivatives (assets) <sup>2)</sup>	-546	-839
Non-current lease liabilities <sup>3)</sup>	208	172
Current lease liabilities <sup>4)</sup>	77	81
Net provision for pensions and similar obligations <sup>3)</sup>	1,503	1,451
Net asset for pensions and similar receivables <sup>5)</sup>	-92	-91
Cash and cash equivalents	-3,411	-2,370
<b>Net debt</b>	<b>13,523</b>	<b>11,925</b>

1) Included in *Other non-current financial liabilities* and *Other current financial liabilities* in the condensed consolidated balance sheet.

2) Included in *Other non-current financial assets and receivables* and *Other current financial receivables* in the condensed consolidated balance sheet.

3) Included in *Other non-current financial liabilities* in the condensed consolidated balance sheet.

4) Included in *Other current financial liabilities* in the condensed consolidated balance sheet.

5) Included in *Other non-current financial assets and receivables* in the condensed consolidated balance sheet.

Currency components of derivatives included in the net debt are recognized in the condensed consolidated balance sheet based on the total value of all components in the financial instrument, i.e. if the total value of the financial instrument is an asset, but includes a negative derivative component, that derivative component is recognized as a negative asset in the condensed consolidated balance sheet and vice versa.



## Quarterly data

Quarterly data for the first, second and third quarters of 2020 have been restated (see Note 1).

### Consolidated income statement in summary

MSEK	Note	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19
Sales, including tobacco tax		5,099	5,389	5,118	4,846	4,877
Less tobacco tax		-962	-989	-986	-816	-944
<b>Sales</b>		<b>4,136</b>	<b>4,400</b>	<b>4,133</b>	<b>4,029</b>	<b>3,933</b>
Cost of goods sold		-1,460	-1,409	-1,460	-1,422	-1,451
<b>Gross profit</b>		<b>2,677</b>	<b>2,990</b>	<b>2,672</b>	<b>2,607</b>	<b>2,482</b>
Selling and administrative expenses		-1,031	-946	-982	-1,009	-1,020
Share of net profit/loss in associated companies		4	4	2	3	4
Impairment charge – European chewing tobacco business	5	-	-	-	-	-367
<b>Operating profit</b>		<b>1,650</b>	<b>2,048</b>	<b>1,693</b>	<b>1,601</b>	<b>1,098</b>
Finance income		13	7	10	30	25
Finance costs		-92	-112	-94	-108	-83
Net finance cost		-80	-105	-84	-78	-59
<b>Profit before income tax</b>		<b>1,570</b>	<b>1,943</b>	<b>1,609</b>	<b>1,523</b>	<b>1,039</b>
Income tax expense		-326	-721	-355	-354	-283
<b>Profit for the period</b>		<b>1,244</b>	<b>1,222</b>	<b>1,254</b>	<b>1,168</b>	<b>756</b>
<i>Attributable to:</i>						
Equity holders of the Parent		1,244	1,222	1,253	1,168	756
Non-controlling interests		0	0	0	0	0
<b>Profit for the period</b>		<b>1,244</b>	<b>1,222</b>	<b>1,254</b>	<b>1,168</b>	<b>756</b>

## Quarterly data by product segment

Quarterly data by product segment for the first, second and third quarters of 2020 have been restated (see Note 1).

### Sales

MSEK	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19
Smokefree	2,606	2,842	2,695	2,508	2,475
Cigars	1,152	1,184	1,069	1,128	1,040
Lights	288	277	275	309	323
<b>Sales from product segments</b>	<b>4,045</b>	<b>4,303</b>	<b>4,039</b>	<b>3,945</b>	<b>3,838</b>
Other operations	91	97	94	84	95
<b>Sales</b>	<b>4,136</b>	<b>4,400</b>	<b>4,133</b>	<b>4,029</b>	<b>3,933</b>

### Operating profit

MSEK	Note	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19
Smokefree		1,168	1,519	1,301	1,154	1,060
Cigars		481	499	378	438	359
Lights		46	57	52	67	100
<b>Operating profit from product segments</b>		<b>1,695</b>	<b>2,075</b>	<b>1,731</b>	<b>1,659</b>	<b>1,520</b>
Other operations		-45	-28	-38	-58	-54
Impairment charge – European chewing tobacco business	5	-	-	-	-	-367
<b>Operating profit</b>		<b>1,650</b>	<b>2,048</b>	<b>1,693</b>	<b>1,601</b>	<b>1,098</b>

### Operating margin by product segment

Percent	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19
Smokefree	44.8	53.5	48.3	46.0	42.8
Cigars	41.7	42.2	35.4	38.8	34.5
Lights	16.0	20.5	18.9	21.7	31.1
<b>Operating margin from product segments</b>	<b>41.9</b>	<b>48.2</b>	<b>42.9</b>	<b>42.1</b>	<b>39.6</b>

### EBITDA by product segment

MSEK	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19
Smokefree	1,269	1,617	1,401	1,252	1,159
Cigars	503	520	400	460	381
Lights	54	67	62	78	111
<b>EBITDA from product segments</b>	<b>1,826</b>	<b>2,204</b>	<b>1,863</b>	<b>1,790</b>	<b>1,651</b>

### EBITDA margin by product segment

Percent	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19
Smokefree	48.7	56.9	52.0	49.9	46.8
Cigars	43.6	43.9	37.4	40.8	36.6
Lights	18.8	24.1	22.7	25.2	34.3
<b>EBITDA margin from product segments</b>	<b>45.1</b>	<b>51.2</b>	<b>46.1</b>	<b>45.4</b>	<b>43.0</b>

### Additional quarterly data

#### Depreciation, amortization and impairments

MSEK	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19
Property, plant and equipment	105	103	106	105	108
Right-of-use assets	23	23	23	22	23
Intangible assets <sup>1)</sup>	18	19	20	21	19
<b>Total</b>	<b>146</b>	<b>145</b>	<b>149</b>	<b>148</b>	<b>150</b>

1) Excluding a non-cash impairment charge on goodwill in the European chewing tobacco business of 367 MSEK reported as a larger one-time item in the fourth quarter 2019.

#### Net finance cost

MSEK	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19
Interest income	5	7	8	30	17
Interest expense	-91	-109	-93	-87	-82
<b>Net interest expense</b>	<b>-86</b>	<b>-102</b>	<b>-85</b>	<b>-57</b>	<b>-64</b>
Other finance costs/income, net	6	-3	1	-21	6
<b>Total net finance cost</b>	<b>-80</b>	<b>-105</b>	<b>-84</b>	<b>-78</b>	<b>-59</b>

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Swedish Match develops, manufactures, and sells quality products with market-leading brands in the product segments Smokefree, Cigars, and Lights. Production is located in seven countries, with sales concentrated in Scandinavia and the US. The Swedish Match share is listed on Nasdaq Stockholm (SWMA).

Swedish Match's vision is a world without cigarettes. Some of its well-known brands include: *General, Longhorn, ZYN, Game, Red Man, Fiat Lux, and Cricket.*

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