



Statement by the Board of Directors pursuant to chapt. 18, § 4 and chapt. 19, § 22 of the Swedish Companies Act with regard to the dividend proposal submitted to the 2020 Annual General Meeting in respect of the 2019 financial year, and the Board's proposal regarding a mandate to repurchase the Company's own shares.

Background

The Board of Directors has analyzed and evaluated the proposed dividend payment in respect of the 2019 financial year, and the proposed mandate in respect of the repurchase of the Company's own shares. The analysis has been based, among other things, on a review of the Group's financial strategy and a financial and strategic long-term plan, including a risk analysis. The proposed dividend and exercise of share repurchases under the proposed mandate to buy back the Company's own shares have been assessed in view of the financial strategy, adopted for the Group by the Board of Directors. Please see the Directors' Report for a description of the financial strategy and the dividend policy.

The nature, scope and inherent risks of the operations

The nature of the operations is specified in the Articles of Association and published Annual Reports. The operations conducted by the Company do not entail any risks over and above those that arise, or may be assumed to arise, within the industry, or those generally associated with the conduct of commercial operations. The tobacco industry is relatively insensitive to fluctuations in the economic climate. Please see the Directors' Report for details of significant events and risk factors as well as the notes to the financial statements. No other material events have occurred that affect the Company's ability to make a dividend payment or buy back its own shares.

The financial position of the Company and the Group

The financial position of the Company and the Group on December 31, 2019 is shown in the most recently published Annual Report. The consolidated shareholders' equity has been calculated in accordance with International Financial Reporting Standards (IFRS) adopted by the EU, and by applying RFR 1.2 Supplementary Accounting Rules for Groups issued by the Swedish Financial Reporting Board. The Parent Company's shareholders' equity has been calculated in accordance with the same principles as for the Group, with exemptions and supplements by applying the Swedish Financial Reporting Board's recommendation, RFR 2.1, Accounting for Legal Entities.

On December 31, 2019 the consolidated shareholders' equity was negative 6,324 MSEK, negative 67 MSEK of which is attributable to a hedge reserve. On December 31, 2019 the equity of the Parent company amounted to 11,970 MSEK whereof the unrestricted equity amounted to 11,580 MSEK. The amount includes market valuation of certain subsidiaries of 19,800 MSEK.

The Group's actual financial position differs from the financial position reported in the most recently published Annual Report in that the companies that make up the corporate Group own a number of assets with market values which exceed the reported values. Based on the closing price of the Swedish Match share, the market value of the Group's shareholders' equity was 78.8 bn SEK on December 31, 2019.

On December 31, 2019 the Group's interest coverage ratio, based on EBITA (Profit for the period excluding larger one-time items, net finance cost, tax, amortization and impairments of intangible assets)/net interest cost was 23.4x and the net debt in relation to EBITA was 2.1x.

The proposed dividend in relation to the financial position

As can be seen from the proposed allocation of profits, the Board proposes an ordinary dividend of 12.50 SEK per share. Given the number of outstanding shares on December 31, 2019 the total ordinary dividend payment is 2,040 MSEK. As the Company is repurchasing shares, it is likely that the total amount will be lower at the Annual General Meeting.

The ordinary dividend of 2,040 MSEK correspond to 17.0 percent of the Parent Company's shareholders' equity and lowers the Group's reported shareholders' equity by 2,040 MSEK. The ratio of the dividend to the market value of shareholders' equity of the Group on December 31, 2019 is 2.6 percent.

The Board also proposes that the Annual General Meeting gives the Board a mandate to buy back shares in the Company to the extent that the Company at any time holds a maximum of 10 percent of its registered shares. Should the maximum number of repurchased shares (subject to the Annual General Meeting approving the Board's proposals) of 16.323 million shares be repurchased at a price corresponding to the share price on December 31, 2019 of 482,8 SEK, total buy backs would amount to 7,881 MSEK, corresponding to 79 percent of the Parent Company's reported shareholders' equity after proposed dividend payments and would lower the Group's reported shareholders' equity by 7,881 MSEK. If exercised in full, the buy-back program would correspond to about 10 percent of the market value of the Group's shareholders' equity on December 31, 2019.

The Board considers the proposed mandate to buy back shares to be flexible. At future board meetings, the Board will evaluate and decide upon the actual utilization of the mandate.

The proposed dividend in relation to liquidity

Based on a review of the Group's financial strategy and a financial and strategic long-term plan, including a risk analysis, the Board of Directors is of the view that the proposed dividend in combination with the mandate to repurchase shares do not affect the Company's ability to fulfill existing and predicted payment liabilities at the correct time. The Company's liquidity forecast includes a readiness to handle variations in ongoing payment obligations. For a more detailed description of the Group's liquidity, please see accompanying note to the Group's financial statements regarding financial instruments in the most recently published Annual Report.

Based on the same review, the Board is of the opinion that the proposed dividend and the buy-back do not jeopardize fulfillment of the investments deemed necessary.

Summary

The Board of Directors is of the opinion that the Company's financial position does not give rise to any assessment other than that the Company is able to continue and can be expected to fulfill its obligations in both the short and the long term.

*** Swedish Match.

Justification of the asset transfers

With reference to the above, the Board believes that the assessment of the Parent Company's and the Group's financial positions justify the asset transfers with reference to the requirements imposed on the size of the Parent Company's and the Group's shareholders' equity by the nature, scope, and inherent risk of the operations, as well as to the consolidation requirements, liquidity and position in general of the Parent Company and the Group's operations.

Stockholm, February 11, 2020



Conny Karlsson
Chairman of the Board



Charles A. Blixt
Board Member



Andrew Cripps
Deputy Chairman



Patrik Engelbrektsson
Board Member



Jacqueline Hoogerbrugge
Board Member



Pauline Lindwall
Board Member



Pär-Ola Olausson
Board Member



Dragan Popovic
Board Member



Wenche Rolfsen
Board Member



Joakim Westh
Board Member