

Interim Report January – March 2020

Record quarter from product segments, driven by US businesses

- In local currencies, sales from product segments increased by 21 percent for the first quarter. Reported sales increased by 24 percent to 4,029 MSEK (3,258).
- In local currencies, operating profit from product segments¹⁾ increased by 30 percent for the first quarter. Reported operating profit from product segments increased by 34 percent to 1,652 MSEK (1,233).
- Operating profit amounted to 1,594 MSEK (1,190) for the first quarter.
- Profit after tax amounted to 1,161 MSEK (880) for the first quarter.
- Earnings per share increased by 38 percent to 7.14 SEK (5.17) for the first quarter.
- Net effect on revenue and results from COVID-19 impacts were positive in the first quarter but are expected to become negative in the second quarter. Guidance for Q2 2020 is provided on page 12 in this report.
- ZYN is now available in approximately 80,000 stores in the US, and average sales per store continued to increase sequentially.

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



CEO Lars Dahlgren comments:

Another record quarter despite turbulent times, led by ZYN and the US

Swedish Match began 2020 on a very positive note, delivering sales and operating profit growth in local currencies across all three product segments. In our view, enhanced transparency and communication are paramount in this period of unprecedented financial and social uncertainty. To that end, the commentary provided within this report under our newly defined product segments, including the geographic specification for our Smokefree segment, should help in framing the opportunities and risks for our respective businesses. We have also summarized below our current perspective on the COVID-19 pandemic from a Swedish Match context. While the COVID-19 pandemic presents unique challenges and uncertainties, I am confident that our underlying business will remain strong, supported by our vision of a world without cigarettes.

Like many businesses, we are experiencing commercial shifts – both positive and negative – which are likely to influence reported results for the coming quarters. However, it is important to note that underlying consumer demand for smokefree products remains strong, and distribution and most retail channels that provide consumers access to our products have, to this point, been largely unaffected by the COVID-19 pandemic. Nevertheless, we have noted some relatively sharp declines in deliveries to certain classes of trade. In Scandinavia, as a result of national travel restrictions, shipments to border trade, ferries and airports virtually ceased during March. Conversely, in the US, deliveries were positively impacted by increased purchases, particularly later in the quarter, from distributors and retailers to support both elevated consumer demand and to guard against potential product supply constraints. We anticipate that in coming quarters, the benefit from increased shipment levels during the first quarter in the US will unwind, while in Scandinavia the lost border/travel retail volumes may not be fully recoverable during 2020.

On the production front, most of our facilities are operating at or near normal capacity levels. Our factory producing ZYN, moist snuff, and chewing tobacco in Owensboro, Kentucky in the US was closed for a brief period of time and is now operating at somewhat reduced staffing levels. Our cigar facility in the Dominican Republic where we manufacture our natural leaf cigars has returned to normal staffing levels following a two-week shutdown and an extended period where we were only able to staff a one-shift operation due to national curfew requirements. Our lighter factory in the Philippines is operating with a significantly reduced workforce, but inventory requirements necessary to meet market demand are to this point being supplied by our other lighter facilities. Output from our production units in Scandinavia is currently at normal capacity, despite higher than usual absenteeism. With regard to sourcing of materials, thus far we have had no significant issues with obtaining inputs needed for production, and, where we have noted some delays or constraints to deliveries, our inventories on hand have been more than sufficient to meet current production requirements.

We are following recommended protocols by governmental and local health authorities, encouraging work from home when possible, and taking proper and prudent measures in order to reduce the negative COVID-19 impacts on society and to ensure the well-being of our employees. We expect to experience increases to our cost base as we work to accommodate necessary modifications to our processes and routines in the current situation, and some projects may need to be postponed or modified. It is encouraging to note, however, that our major capital expenditure projects, such as the construction for additional ZYN capacity in the US and in Scandinavia, are currently progressing according to plan. In mid-February 2020, we secured 300 MEUR in new debt financing providing ample liquidity during this uncertain period and on April 2, we held our Annual General Meeting, and the shareholders approved an increased dividend of 12.50 SEK per share, which was paid on April 9.

I am encouraged by the strength of our businesses and by the dedication of our employees in maintaining focus and excellence during this uniquely challenging time, which should enable Swedish Match to pursue its growth opportunities over the coming years.

Product segments

As previously announced, Swedish Match has as of January 1, 2020, changed the composition of the Group's reportable product segments. For further information, please see Note 1.

Smokefree

The new product segment Smokefree brings together all of the Group's smokefree operations, which includes snus, nicotine pouches, moist snuff, US chewing tobacco, chew bags and tobacco bits.



Cigars

The new product segment Cigars represents the cigar operations, substantially relating to US mass market cigars.

Lights

The composition of the Lights product segment has not changed and represents the lights operations which includes matches and lighters as well as complementary products.



Summary of consolidated income statement

MSEK	January-March		Chg %	Full year 2019
	2020	2019		
Sales	4,029	3,258	24	14,739
Sales from product segments	3,945	3,174	24	14,363
Operating profit from product segments	1,652	1,233	34	5,812
Operating profit, excluding larger one-time items	1,594	1,190	34	5,675
Operating profit	1,594	1,190	34	5,307
Profit before income tax	1,515	1,121	35	5,060
Profit for the period	1,161	880	32	3,896
Operating margin from product segments, %	41.9	38.8		40.5
Earnings per share, basic and diluted, SEK	7.14	5.17		23.22
Adjusted earnings per share, basic and diluted, SEK ¹⁾	7.14	5.17		25.41

1) 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.

The first quarter

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

Sales

Group sales and sales from product segments both increased by 24 percent to 4,029 MSEK (3,258) and 3,945 MSEK (3,174), respectively. Currency translation positively affected the comparability of sales from product segments by 113 MSEK, and in local currencies, sales from product segments increased by 21 percent. In the US, sales during the quarter benefitted from relatively sizeable COVID-19 related hoarding effects across the product range. In Scandinavia, shipments suffered from net negative COVID-19 effects as volumes to travel retail and border trade classes of customers declined dramatically during March. Adjusted for these effects, sales from product segments are estimated to have increased by approximately 17 percent in local currencies. The Smokefree product segment, and specifically nicotine pouches in the US, was the key source of sales growth during the quarter, also on an underlying basis. Sales also increased for the Cigars product segment in local currency. As a result of sharp depreciation of the Brazilian real, sales declined slightly for the Lights product segment in SEK.

Earnings

Operating profit from product segments increased by 34 percent to 1,652 MSEK (1,233). In local currencies, operating profit from product segments was up by 30 percent with increases for all product segments. Adjusted for the above-mentioned COVID-19 effects on sales, operating profit from product segments in local currencies is estimated to have increased by 24 percent. The operating profit for the Lights product segment benefitted from the favorable resolutions of indirect tax disputes in Brazil (see Note 7).

Group operating profit amounted to 1,594 MSEK (1,190). Currency translation has affected the comparison of the operating profit positively by 46 MSEK.

The Group's net finance cost amounted to 78 MSEK (69). The income tax expense amounted to 354 MSEK (242) and the reported effective corporate tax rate was 23.4 percent (21.5). The corporate tax rate, excluding associated companies and non-recurring tax items, was 22.9 percent (22.0). The higher tax rate for the Group resulted primarily from the sharp increase in the relative contribution to earnings from our US businesses, which is taxed at a higher effective tax rate compared to the average Group tax rate.

The Group's profit for the period amounted to 1,161 MSEK (880).

Earnings per share (EPS) for the first quarter amounted to 7.14 SEK (5.17).

Smokefree

First quarter highlights:

- Higher sales and operating profit driven by a strong performance in the US
- Strong sequential growth for ZYN in the US from both existing stores and expanded distribution
- Solid performance in the US for moist snuff and chewing tobacco
- In Scandinavia, shipment volumes for nicotine pouches grew while snus volumes declined, impacted by COVID-19 effects



Key data

MSEK	January-March		Chg %	Full year 2019
	2020	2019		
Sales	2,508	1,863	35	8,914
Operating profit	1,154	805	43	3,997
Operating margin, %	46.0	43.2		44.8
EBITDA	1,252	885	42	4,353
EBITDA margin, %	49.9	47.5		48.8
Capital expenditures	155	146	6	593

The first quarter

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

In local currencies, sales for the Smokefree product segment increased by 31 percent. Adjusted for Swedish Match estimates of COVID-19 effects, smokefree sales in local currencies are estimated to have increased by 28 percent. The sales development was further influenced by pipeline volumes attributable to added ZYN distribution in the US as well as trade inventory decreases during the start of the year following a strong finish to 2019 in Scandinavia. Increased shipment volumes for ZYN in the US were the key contributor to sales growth for the segment. In the US, sales in local currency also grew for moist snuff and chewing tobacco. In Scandinavia, sales were flat, with growth for nicotine pouches and chewing tobacco offsetting modest declines for snus. In other markets outside of Scandinavia and the US, sales declined. Operating profit in local currencies improved in the US, more than offsetting declines in Scandinavia and other markets.

Scandinavia

Scandinavia refers to Sweden, Norway, and Denmark.

Key data

	January-March		Chg %	Full year 2019
	2020	2019		
Financials				
Sales, MSEK	1,033	1,031	0	4,624
Operating profit, MSEK	496	527	-6	2,431
Operating margin, %	48.0	51.1		52.6
Shipment volumes				
Snus, million cans	56.5	58.9	-4	260.1
Nicotine pouches, million cans	2.8	1.7	66	8.8

Market shares¹⁾

Percent	January-March		Chg ppts	Full year 2019
	2020	2019		
Snus, Sweden	61.2	61.9	-0.7	61.5
Snus, Norway	57.1	54.9	2.2	55.5
Nicotine pouches, Sweden	25.9	25.4	0.4	25.8
Nicotine pouches, Norway ²⁾	14.1	17.1	-3.0	15.4

1) Based on Nielsen data (excluding tobacconists and e-commerce): 13 weeks to March 29, 2020 and March 31, 2019, respectively.
All figures for the Swedish market have been restated to reflect changes in Nielsen store measurements.

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

In Scandinavia, the Swedish and Norwegian markets continued to demonstrate strong volume growth during the quarter, led by rapid gains for nicotine pouches in both countries, as well as continued growth for snus in Sweden. Getting an accurate read on market dynamics within Scandinavia (Sweden, Norway, and Denmark) for the combined snus and nicotine pouch categories is challenging due to COVID-19 effects as well as other trade inventory movements. However, Swedish Match estimates that the combined snus and nicotine pouch categories in Scandinavia grew more than 8 percent on an underlying basis. Swedish Match estimates that its underlying snus and nicotine pouch volumes combined increased by more than 3 percent. Due to disrupted deliveries to the border trade and travel retail (ferries, airports, etc.) channels, Swedish Match's reported snus shipment volume declined. Operating profit increased somewhat on an underlying basis, but declined as reported, principally due to sharply reduced shipments to the border and travel retail, trade destocking at the beginning of the year, higher operating expenses, as well as the depreciation of the NOK vs. the SEK.

In Sweden, Swedish Match improved slightly its market share in the rapidly growing nicotine pouch category compared to the prior year but its market share of the snus category declined.

In Norway, Swedish Match's market share within the conventional snus category improved compared to the prior year but declined in the nicotine pouch category.

The US

Key data

	January-March		Chg %	Full year 2019
	2020	2019		
Financials				
Sales, MSEK	1,427	783	82	4,082
Operating profit, MSEK	671	261	157	1,534
Operating margin, %	47.0	33.3		37.6
Shipment volumes				
Moist snuff, million cans	35.2	30.3	16	124.0
Nicotine pouches, million cans	24.9	6.0	312	50.4
Chewing tobacco, thousands of pounds (excluding contract manufacturing volumes)	1,440	1,446	0	5,681

Market shares¹⁾

Percent	January-March		Chg ppts	Full year 2019
	2020	2019		
Moist snuff	8.7	8.2	0.5	8.2
Nicotine pouches	74.2	96.2	-22.0	84.4
Chewing tobacco (excluding contract manufacturing volumes)	40.1	40.1	0	40.4

1) Based on MSA distributor shipments: 13 weeks to March 29, 2020 and March 30, 2019 respectively.

In local currency, US sales for smokefree products grew by 73 percent, while operating profit grew by 143 percent. Adjusted for Swedish Match estimates of COVID-19 hoarding effects, US sales and operating profit for smokefree products in local currencies increased by 63 percent and 119 percent, respectively. Sales growth continued to be robust for nicotine pouches, and was also strong for moist snuff. For chewing tobacco, sales grew modestly. Operating profit in local currency increased principally from ZYN, and also from both moist snuff and chewing tobacco, while profit for snus in the US was flat.

ZYN sales continued to demonstrate rapid volume growth, with shipment volumes reaching 24.9 million cans during the quarter. The volume growth is attributable to both increased store velocities (cans/store/week) and a sequential increase in store count of 13,000 stores (ZYN now in approximately 80,000 stores). Swedish Match estimates that the incremental ZYN shipments due to COVID-19 hoarding and pipeline volumes to new distribution approximated 3 million cans in the quarter. As ZYN participates in a rapidly expanding market and is no longer the only participant in many states, rapid volume growth may be achieved concurrent with market share declines. Based on the measure of distributor shipments to retail, ZYN remains the largest player in the market, with more than a 70 percent share within the nicotine pouch category.

For our US moist snuff business, shipment volumes increased sharply, with volume gains across loose, tub and pouch formats. The volume growth was attributable to Swedish Match focus on faster growing segments (pouches and tubs), positive reception to the simplified pricing promotion strategy for the *Longhorn* brand, as well as COVID-19 related hoarding effects towards the end of the quarter. Swedish Match continued to gain market share in the attractive moist snuff pouch segment in the quarter, leading to share gains within the total moist snuff category.

Chewing tobacco shipments in the US (excluding contract manufacturing volumes) during the quarter were marginally lower compared to the prior year. Shipment volumes for traditional premium varieties declined, while they grew for value brands. COVID-19 related hoarding effects are estimated to have positively affected shipments of chewing tobacco as well. Both sales and operating profit grew in local currency.

Other markets

Key data

	January-March 2020	January-March 2019	Chg %	Full year 2019
Sales, MSEK	48	49	-3	209
Operating profit, MSEK	-13	17	-175	32
Operating margin, %	-27.2	35.3		15.4
Shipment volumes, millions cans ¹⁾	2.3	2.7	-15	11.0

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

In other markets outside of the US and Scandinavia, sales and operating profit declined in both reported and local currencies. For chewing tobacco outside of the US (chew bags and tobacco bits) volumes declined, partly due to inventory adjustments, resulting in declines in both sales and operating profit. Sales were higher for nicotine pouches and relatively flat for snus. For nicotine pouches, investments tied to product launches in a number of countries, primarily in Europe, continue, and in addition, substantial investments are being made to strengthen support behind future activities, including a new organizational structure. The current situation with regard to COVID-19 is adversely impacting certain marketing and launch activities.

Cigars

First quarter highlights:

- Swedish Match cigar shipment volumes up 7 percent with gains in natural leaf varieties offsetting declines for HTL
- Swedish Match gained market share as a result of strong performance within the natural leaf segment
- No significant impacts on deliveries despite the temporary factory shutdown in the Dominican Republic



Key data

MSEK	January-March		Chg %	Full year 2019
	2020	2019		
Sales	1,128	996	13	4,249
Operating profit	431	384	12	1,577
Operating margin, %	38.2	38.6		37.1
EBITDA	453	405	12	1,662
EBITDA margin, %	40.1	40.6		39.1
Capital expenditures	24	16	52	52

The first quarter

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

The Cigars product segment derives its sales and profit almost exclusively from the US operations. In local currency, sales were up by 7 percent, while operating profit grew in line with sales and volumes. Adjusted for Swedish Match estimates of COVID-19 hoarding effects in the US, Cigar segment sales were flat and operating profit declined modestly in local currency.

Swedish Match's cigar shipment volumes were notably higher in the quarter versus prior year as volume growth for natural leaf varieties more than offset volume declines for homogenized tobacco leaf (HTL) varieties. Swedish Match utilizes the externally developed MSA data set to monitor category shipments and market shares and revisions to historical reporting periods are common as retail stores and distributors are added to the data set. Based on MSA measures of distributor shipments to retail, total cigar category volumes increased by close to 8 percent in the first quarter compared to a category growth rate of more than 2 percent for full year 2019. Swedish Match volumes under this measure increased by 11 percent in the first quarter of 2020 (versus less than 2 percent for the full year 2019). Swedish Match gained market share within the faster growing natural leaf segment while losing share in the HTL segment. Swedish Match grew its market share of the total cigar category in the quarter, reflecting our portfolio positioning skewed toward the growing natural leaf segment.

Given the COVID-19 pandemic and actions taken in the Dominican Republic, Swedish Match made the decision to temporarily suspend the cigar operations of its subsidiary Swedish Match Dominicana from March 23 until April 7. Following a further two-week period of one-shift operations due to national curfew requirements, Swedish Match resumed normal staffing on April 20. While many aspects of the COVID-19 situation remain fluid, we currently do not anticipate any material impact on our ability to meet anticipated demand for cigars.

US shipment volumes

	January-March		Chg %	Full year 2019
	2020	2019		
Shipment volumes				
Homogenized tobacco leaf (HTL) cigars, million sticks	166	176	-6	625
Natural leaf cigars, million sticks	286	245	17	1,067
Cigars total	452	422	7	1,692

Market shares¹⁾

Percent	January-March		Chg ppts	Full year 2019
	2020	2019		
Homogenized tobacco leaf (HTL) cigars	12.8	13.3	-0.5	11.6
Natural leaf cigars	45.3	43.4	1.9	43.6
Cigars total	23.4	22.7	0.7	21.1

1) Based on MSA distributor shipments: Mass market cigars (excluding little cigars) 13 weeks to March 29, 2020 and March 30, 2019 respectively.

Lights

First quarter highlights:

- Sales essentially flat on a local currency basis despite volume declines for lighters and matches
- Decision on indirect tax disputes in Brazil positively impacted results by 16 MSEK
- Operating profit grew on an underlying basis, excluding the positive tax impact



Key data

MSEK	January-March		Chg %	Full year 2019
	2020	2019		
Sales	309	314	-2	1,200
Operating profit	67	43	55	238
Operating margin, %	21.7	13.8		19.8
EBITDA	78	55	43	282
EBITDA margin, %	25.2	17.4		23.5
Capital expenditures	8	10	-27	43

The first quarter

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

Sales for the Lights product segment declined by 2 percent, with increases for lighters on a favorable format and market mix despite lower volumes, coupled with declines for complementary products and matches principally due to a significant weakening of the Brazilian real.

For lighters, operating profit grew as a result of the favorable product mix, combined with cost controls and reduced raw materials pricing. Operating profit grew for matches on a reported basis, and also when adjusting for the benefit from a positive resolution of disputes over indirect taxes (principally value added tax) in Brazil amounting to 16 MSEK (see Note 7). Operating profit also grew for complementary products despite somewhat lower sales.

Shipment volumes, worldwide

	January-March		Chg %	Full year 2019
	2020	2019		
Matches, billion sticks	15.1	16.1	-6	54.3
Lighters, million units	72.9	78.9	-8	304.5

Cash flow and financing

Cash flow from operating activities for the first quarter of 2020 amounted to 1,227 MSEK (972). The increase was driven by the stronger EBITDA development from product segments and improved cash flow from working capital but was negatively impacted by the timing of income tax payments.

Investments in property, plant and equipment increased to 192 MSEK (180). During the first quarter of 2020, Swedish Match also paid the remaining consideration related to the acquisition of Gotlandssnus in 2018.

Net finance cost for the first quarter increased to 78 MSEK (69) due to higher average debt which was partly offset by lower debt interest rates. Decreased income on cash surplus due to lower interest rates also had a negative impact on net finance cost.

During the quarter, new bond loans of 3,175 MSEK were issued and repayments of bond loans amounted to 100 MSEK. As of March 31, 2020, Swedish Match had 15,912 MSEK of interest-bearing debt excluding retirement benefit obligations, but including the recognition of lease liabilities of 247 MSEK. The Group's interest-bearing debt at December 31, 2019 amounted to 12,935 MSEK and 13,832 MSEK at March 31, 2019. During the remainder of 2020, 1,200 MSEK of this debt falls due for payment. For further detail on the maturity profile of the debt portfolio, please see the Company's website. Net retirement benefit obligations increased to 1,854 MSEK as of March 31, 2020, from 1,360 MSEK at December 31, 2019 mainly due to plan asset market losses and currency effects on US dollar denominated plans.

As of March 31, 2020, Swedish Match had 1,500 MSEK in unutilized committed credit lines. Cash and cash equivalents amounted to 5,779 MSEK at the end of the period, compared to 2,370 MSEK at December 31, 2019. The higher cash position preceded the April dividend payment of 2,020 MSEK.

The net debt as of March 31, 2020 amounted to 11,986 MSEK compared to 11,925 MSEK at December 31, 2019 and 10,785 MSEK at March 31, 2019.

Shareholder distributions and the share

In April 2020, Swedish Match paid dividends of 2,020 MSEK to its shareholders.

During the first quarter, Swedish Match repurchased 1.6 million shares for 935 MSEK at an average price of 571.39 SEK, following authorization from the Annual General Meeting held in 2019. Total shares bought back by Swedish Match since the buyback program started have been repurchased at an average price of 141.49 SEK. As per March 31, 2020 Swedish Match held 8.4 million shares, corresponding to 4.92 percent of the total number of shares. The number of shares outstanding, net, as per March 31, 2020, amounted to 161.6 million.

Effects from the novel 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. Additionally, businesses across the globe are facing severe challenges. While longer-term effects from the pandemic are uncertain, the commercial, operational and financial consequences to Swedish Match have thus far been limited. The effects from the COVID-19 pandemic during the first quarter were essentially increased sales due to net positive hoarding effects, and increased net pension liabilities. 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 necessary to mitigate potential impacts to our employees, our customers and our business, as well as the society.

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. After repayment of 100 MSEK of our June 2020 bond maturity, we have 1,200 MSEK in remaining maturities this year. At the end of the first quarter of 2020, we held 5,779 MSEK in cash and cash equivalents, and a net debt position of 11,986 MSEK corresponding to a leverage of 1.9 in relation to EBITA. Earlier this month, the Annual General Meeting approved an ordinary dividend for the financial year 2019 of 2,020 MSEK, which 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.

In several countries, there have been severe declines in financial assets, particularly equity securities. 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. As per March 31, 2020 the Group's net defined post-employment benefit obligations increased by 494 MSEK compared to December 2019, mainly as a result of lower period end valuation of plan assets as well as negative currency translation effects.

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.

Other events during the quarter

FDA guidance on flavors

In January 2020, the US FDA issued guidance stating that the FDA intends to take enforcement action against flavored cartridge-based electronic cigarettes (other than a tobacco- or menthol-flavored) and against other electronic cigarettes that are targeted to minors or where manufacturers have failed to take adequate measures to prevent access by minors. In relation to flavored cigars, the FDA stated that it still intends to issue a regulation that would ban the use of characterizing flavors in cigars, and that FDA is working towards that proposed rule. In January, the FDA further indicated that it intended to defer regulatory actions against cigars until May 12, 2020 at which time substantial equivalence or new product application filings were due for products that were not in the market on February 15, 2007. On March 30, the FDA filed a motion with the United States District Court for the District of Maryland requesting a 120-day extension of the May 12 deadline which would move it to September 9, 2020. On April 22, the court granted the requested extension.

Events after the reporting period

Annual General Meeting and repurchase of own shares

The Annual General Meeting held on April 2, 2020, re-elected Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Conny Karlsson, Pauline Lindwall, Wenche Rolfsen and Joakim Westh as members of Swedish Match's Board of Directors. Alexander Lacik was elected as new member of the Board of Directors. Conny Karlsson was re-elected Chairman of the Board and Andrew Cripps was re-elected Deputy Chairman of the Board.

The Annual General Meeting approved the Board's proposal of a dividend of 12.50 SEK per share. The dividend amounted to 2,020 MSEK and was paid to the shareholders in April. In addition, the Meeting resolved to reduce the share capital by means of withdrawal of 7,750,000 shares in the Company, held in treasury, with a simultaneous bonus issue, without issuing any new shares, of a corresponding amount to restore the share capital. As per April 27, 2020, the total number of registered shares in the Company is 162,200,000 and the number of treasury shares amounts to 607,766.

The 2020 Annual General Meeting further authorized the Board of Directors to acquire the Company's own shares, including the possibility to implement a repurchase program in accordance with the Market Abuse Regulation (EU) No 596/2014 ("MAR") and the Commission Delegated Regulation (EU) No 2016/1052 (the "Safe Harbour Regulation"), a mandate which the Board now utilizes. The purpose of the repurchasing right is to enable Swedish Match to adapt its capital structure to its capital needs over time, and thereby contribute to an increased shareholder value.

The Annual General Meeting authorized the Board of Directors to resolve on transfer of the Company's own shares, on one or several occasions prior to the next Annual General Meeting. The shares may only be transferred in conjunction with the financing of company acquisitions and other types of strategic investments and acquisitions, and the transfers may not exceed the maximum number of treasury shares held by the Company at any given time. Transfer of own shares shall be made either on Nasdaq Stockholm or in another manner.

Furthermore, the Annual General Meeting approved the Board of Directors' proposal that it be authorized, for the period until the end of the next Annual General Meeting, to issue new ordinary shares on one or more occasions, with or without deviation from shareholders' preferential rights and against payment in cash, in kind or by set-off. The number of shares that may be issued may not exceed a maximum dilution effect of 10 percent of the share capital and votes at the time of the Annual General Meeting 2020.

Full Year 2020 Outlook (unchanged)

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 2020, Swedish Match expects continued market growth in global markets for smokefree nicotine products, most notably driven by rapid growth of nicotine pouches (both without tobacco and with small amounts of tobacco).

During 2020, 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 ZYN production capacity are expected to result in capital expenditures in 2020 considerably above the 2019 level.

The effective corporate tax rate in 2020, excluding associated companies and larger one-time items, is expected to be in the 22 percent to 23 percent range.

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

Guidance on Second Quarter 2020 with regard to COVID-19

While the COVID-19 effects on a net basis benefited sales and operating profit during the first quarter, at this point, we anticipate several areas that will negatively impact our second quarter financial results. We expect that the hoarding of products in the US market will partially reverse as distributors become more confident of our ability to meet demand. Also, our expectation is that the border and travel retail classes of trade will remain closed for at least a portion of the quarter. We also expect to incur additional manufacturing and operating expenses during the second quarter as we deal with the consequences of the pandemic that, due to the timing of the onset of COVID-19, only minimally impacted our first quarter result. While difficult to estimate with a high degree of confidence, Swedish Match currently estimates that the combined COVID-19 negative consequences on operating profit during the second quarter could exceed the net benefits realized in the first quarter of 2020.

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 novel 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.

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 first quarter 2020 amounted to 2 MSEK (10). Loss before income tax amounted to -173 MSEK (-151) and net loss for the quarter amounted to -136 MSEK (-122). The higher loss before income tax compared to previous year is primarily related to reduced revenue from services to subsidiaries and higher administrative expenses.

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 100 MSEK during the first quarter and new bond loans of 3,175 MSEK were issued.

During the first quarter, the Parent Company made share repurchases of 1.6 million (1.0) shares for 935 MSEK (449).

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 January-June 2020 report will be released on July 17, 2020.

Stockholm, April 27, 2020

Lars Dahlgren
President and CEO

Product segments summary and key ratios

Sales

MSEK	January-March		Chg %	Full year 2019
	2020	2019		
Smokefree	2,508	1,863	35	8,914
Cigars	1,128	996	13	4,249
Lights	309	314	-2	1,200
Sales from product segments	3,945	3,174	24	14,363
Other operations	84	84	0	376
Sales	4,029	3,258	24	14,739

Operating profit

MSEK	Note	January-March		Chg %	Full year 2019
		2020	2019		
Smokefree		1,154	805	43	3,997
Cigars		431	384	12	1,577
Lights		67	43	55	238
Operating profit from product segments		1,652	1,233	34	5,812
Other operations		-58	-43		-137
Impairment charge - European chewing tobacco business	5	-	-		-367
Operating profit		1,594	1,190	34	5,307

Operating margin by product segment

Percent	January-March		Full year 2019
	2020	2019	
Smokefree	46.0	43.2	44.8
Cigars	38.2	38.6	37.1
Lights	21.7	13.8	19.8
Operating margin from product segments	41.9	38.8	40.5

EBITDA by product segment

MSEK	January-March		Chg %	Full year 2019
	2020	2019		
Smokefree	1,252	885	42	4,353
Cigars	453	405	12	1,662
Lights	78	55	43	282
EBITDA from product segments	1,783	1,344	33	6,296

EBITDA margin by product segment

Percent	January-March		Full year 2019
	2020	2019	
Smokefree	49.9	47.5	48.8
Cigars	40.1	40.6	39.1
Lights	25.2	17.4	23.5
EBITDA margin from product segments	45.2	42.4	43.8

Key ratios

	2020	January-March		Full year 2019
		2019	12 months ended March 31, 2020	
Operating margin from product segments, %	41.9	38.8	41.2	40.5
Operating margin, % ¹⁾	39.6	36.5	36.8	36.0
Net debt, MSEK	11,986	10,785	11,986	11,925
Investments in property, plant and equipment, MSEK	192	180	733	720
Depreciation, amortization and impairments, MSEK ¹⁾	148	126	570	915
EBITA, MSEK	1,614	1,206	6,151	5,742
EBITA interest cover	28.3	18.3	26.0	23.4
Net debt/EBITA	-	-	1.9	2.1
<i>Share data</i>				
Number of shares outstanding at end of period	161,592,234	169,240,705	161,592,234	163,228,313
Average number of shares outstanding	162,597,883	170,092,016	165,906,209	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.

Financial statements

Condensed consolidated income statement

<i>MSEK</i>					
	Note	January-March 2020	January-March 2019	Chg %	Full year 2019
Sales, including tobacco tax		4,846	4,069		18,222
Less tobacco tax		-816	-811		-3,483
Sales	2	4,029	3,258	24	14,739
Cost of goods sold		-1,429	-1,234		-5,376
Gross profit		2,600	2,023	28	9,363
Selling and admin. expenses		-1,009	-834		-3,694
Share of profit/loss in associated companies		3	1		5
Impairment charge – European chewing tobacco business	5	-	-		-367
Operating profit		1,594	1,190	34	5,307
Finance income		30	24		95
Finance costs		-108	-93		-343
Net finance cost		-78	-69		-247
Profit before income tax		1,515	1,121	35	5,060
Income tax expense		-354	-242		-1,165
Profit for the period		1,161	880	32	3,896
<i>Attributable to:</i>					
Equity holders of the Parent		1,161	880		3,895
Non-controlling interests		0	0		0
Profit for the period		1,161	880	32	3,896
Earnings per share, basic and diluted, SEK	4	7.14	5.17		23.22

Condensed consolidated statement of comprehensive income

MSEK	January-March		Full year
	2020	2019	2019
Profit for the period	1,161	880	3,896
<i>Other comprehensive income that may be reclassified to the income statement</i>			
Translation differences related to foreign operations	491	191	191
Effective portion of changes in fair value of cash flow hedges	45	49	122
Income tax relating to reclassifiable components of other comprehensive income	-9	-10	-25
Sub-total, net of tax for the period	527	229	288
<i>Other comprehensive income that will not be reclassified to the income statement</i>			
Actuarial gains/losses attributable to pensions, incl. payroll tax	-339	-51	-168
Income tax relating to non-reclassifiable components of other comprehensive income	88	11	38
Sub-total, net of tax for the period	-250	-40	-130
Total comprehensive income for the period	1,437	1,069	4,054
<i>Attributable to:</i>			
Equity holders of the Parent	1,437	1,069	4,053
Non-controlling interests	0	0	0
Total comprehensive income for the period	1,437	1,069	4,054

Condensed consolidated balance sheet

MSEK	Note	March 31, 2020	December 31, 2019
Intangible assets		2,447	2,355
Property, plant and equipment		3,444	3,255
Right-of-use assets		248	255
Investments in associated companies		35	42
Other non-current assets and operating receivables		17	18
Other non-current financial assets and receivables	3,8	2,604	1,826
Total non-current assets		8,795	7,750
Other current financial receivables	3,8	151	195
Current operating assets and receivables	3	3,833	3,905
Cash and cash equivalents	3	5,779	2,370
Total current assets		9,763	6,471
Assets held for sale ¹⁾		14	16
Total assets		18,571	14,237
Equity attributable to equity holders of the Parent		-5,821	-6,324
Non-controlling interests		16	16
Total equity		-5,805	-6,308
Non-current financial provisions		1,265	1,310
Non-current loans	3	15,175	12,130
Other non-current financial liabilities	3,8	2,102	1,626
Other non-current operating liabilities	3	455	434
Total non-current liabilities		18,998	15,499
Current loans	3	1,949	1,300
Other current financial liabilities	3,8	520	633
Other current operating liabilities	3	2,910	3,112
Total current liabilities		5,379	5,045
Total liabilities		24,377	20,544
Total equity and liabilities		18,571	14,237

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-March	
	2020	2019
<i>Operating activities</i>		
Profit before income taxes	1,515	1,121
Share of profit/loss in associated companies	-3	-1
Dividend received from associated companies	10	-
Other non-cash items etc ¹⁾	140	134
Income tax paid	-394	-170
Cash flow from operating activities before changes in working capital	1,269	1,085
Changes in working capital	-43	-113
Net cash generated from operating activities	1,227	972
<i>Investing activities</i>		
Purchase of property, plant and equipment	-192	-180
Proceeds from sale of property, plant and equipment	7	0
Purchase of intangible assets	-6	-11
Acquisition of subsidiaries ²⁾	-32	-
Changes in financial receivables etc.	0	0
Net cash used in investing activities	-223	-190
<i>Financing activities</i>		
Proceeds from borrowings	3,175	999
Repayment of borrowings	-100	-200
Lease payments	-21	-22
Repurchase of own shares	-935	-449
Realized exchange gain/losses on financial instruments	49	139
Other	0	3
Net cash generated from financing activities	2,168	469
Net increase in cash and cash equivalents	3,171	1,251
Cash and cash equivalents at the beginning of the period	2,370	2,886
Effect of exchange rate fluctuations on cash and cash equivalents	238	39
Cash and cash equivalents at the end of the period	5,779	4,175

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

2) Refers to remaining consideration, formed as a vendor loan, 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
Equity at January 1, 2019	-5,611	16	-5,595
Profit for the period	880	0	880
Other comprehensive income, net of tax for the period	189	0	189
Total comprehensive income for the period	1,069	0	1,069
Dividend	-	0	0
Repurchase of own shares	-449	-	-449
Equity at March 31, 2019	-4,992	16	-4,976
Equity at January 1, 2020	-6,324	16	-6,308
Profit for the period	1,161	0	1,161
Other comprehensive income, net of tax for the period	277	0	276
Total comprehensive income for the period	1,437	0	1,437
Repurchase of own shares	-935	-	-935
Equity at March 31, 2020	-5,821	16	-5,805

Condensed Parent Company income statement

MSEK	January-March	
	2020	2019
Sales	2	10
Administrative expenses	-90	-82
Operating loss	-88	-72
Finance income	0	0
Finance costs	-84	-79
Net finance cost	-84	-79
Loss before income tax	-173	-151
Income tax	36	29
Loss for the period	-136	-122

Condensed Parent Company statement of comprehensive income

MSEK	January-March	
	2020	2019
Loss for the period	-136	-122
<i>Other comprehensive income that may be reclassified to the income statement</i>		
Effective portion of changes in fair value of cash flow hedges	45	49
Income tax relating to components of other comprehensive income	-9	-10
Other comprehensive income, net of tax for the period	36	39
Total comprehensive income for the period	-101	-84

Condensed Parent Company balance sheet

MSEK	March 31, 2020	March 31, 2019	December 31, 2019
Intangible and tangible assets	0	1	1
Non-current financial assets	32,611	31,856	31,952
Current assets	170	1,526	2,980
Cash and other current deposits	1	-	400
Total assets	32,781	33,383	35,332
Equity	10,934	14,621	11,970
Untaxed reserves	2,325	1,785	2,325
Provisions	108	86	98
Non-current liabilities	15,178	13,396	12,132
Current liabilities	4,235	3,495	8,807
Total liabilities	19,522	16,977	21,037
Total equity and liabilities	32,781	33,383	35,332

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.

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 – January to March

MSEK	Segments								Other operations		Group	
	Smokefree		Cigars		Lights		Total segments					
	Primary geographical markets		Jan-Mar 2020	2019	Jan-Mar 2020	2019	Jan-Mar 2020	2019	Jan-Mar 2020	2019	Jan-Mar 2020	2019
Scandinavia	1,033	1,031	-	-	12	10	1,045	1,041	84	84	1,129	1,125
The US	1,427	783	1,128	996	28	20	2,583	1,799	-	-	2,583	1,799
Other markets	48	49	-	1	269	284	317	334	-	-	317	334
Total sales	2,508	1,863	1,128	996	309	314	3,945	3,174	84	84	4,029	3,258

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 per March 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	-	1,548	-	-	-	1,548	1,548
Other non-current financial receivables	-	12	-	1,422	471	1,904	1,904
Other current assets and financial receivables	14	82	-	-	222	318	318
Prepaid expenses and accrued income ¹⁾	-	-	-	5	114	119	119
Cash and cash equivalents	-	5,779	-	-	-	5,779	5,779
Total assets	14	7,421	-	1,427	807	9,668	9,668
Loans and borrowings	-	-	17,125	-	-	17,125	16,881
Other non-current financial liabilities	-	-	167	3	49	218	218
Other current liabilities	15	-	80	-	1,604	1,699	1,699
Accrued expenses and deferred income ¹⁾	-	-	97	30	638	765	765
Trade payables	-	-	351	-	-	351	351
Total liabilities	15	-	17,820	33	2,291	20,158	19,914

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	-	1,441	-	1,441
Derivative financial liabilities	-	48	-	48

The following table shows carrying value and fair value for financial instruments per March 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	-	1,448	-	-	-	1,448	1,448
Other non-current financial receivables	-	-	-	649	459	1,108	1,108
Other current assets and financial receivables	3	13	-	150	195	361	361
Prepaid expenses and accrued income ¹⁾	-	-	-	3	117	120	120
Cash and cash equivalents	-	4,175	-	-	-	4,175	4,175
Total assets	3	5,636	-	802	771	7,212	7,212
Loans and borrowings	-	-	14,517	-	0	14,517	14,570
Other non-current financial liabilities	-	-	192	3	60	255	255
Other current liabilities	4	-	108	-	1,480	1,592	1,592
Accrued expenses and deferred income ¹⁾	-	-	123	38	782	943	943
Trade payables	-	-	329	-	-	329	329
Total liabilities	4	-	15,269	41	2,322	17,636	17,689

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	-	805	-	805
Derivative financial liabilities	-	45	-	45

No transfer in or out of level 2 has been made during the first 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 is 11,482 MSEK (10,074) of which 9,478 MSEK (7,196) is in cash flow hedges consisting of cross currency and interest rate swaps related to bond loans. The remaining 2,004 MSEK (2,878) consist 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.

Earnings per share

<i>Basic and diluted</i>	January-March 2020	2019	Full year 2019
Profit for the period attributable to equity holders of the Parent, MSEK	1,161	880	3,895
Profit for the period attributable to equity holders of the Parent, excl. larger one-time items, MSEK	1,161	880	4,263
Weighted average number of shares outstanding	162,597,883	170,092,016	167,779,742
Earnings per share, SEK	7.14	5.17	23.22
Adjusted earnings per share, SEK	7.14	5.17	25.41

Note 5 - Impairment charge 2019 – 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 economical 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 economical 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 first quarter of 2020 was increased amortization expenses of 4 MSEK relating to the Thunder trademark recognized in the Smokefree product segment. For the full year 2020, the amortization expenses relating to the Thunder trademark amounts to 17 MSEK, to be recognized in the Smokefree product segment. Consequently, the Group's full year profit net of tax will be reduced by 14 MSEK.

Note 7 – Tax related contingencies

Tax audits in Sweden

During 2017, the Swedish Tax Agency performed tax audits of 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. Swedish Match does not agree with the Tax Agency's assessment and filed appeals to the Tax Agency's decisions in March 2018. In April 2019, Swedish Match received a new proposal to deny the same kind of deduction as in one of the cases but for a subsequent year not included in the Tax Audit. The Tax Agency, following the final decisions, is claiming total income tax and surcharges of 320 MSEK excluding interest charges. Both cases have been ruled in favor of the Tax Agency by the County Administrative Court in Stockholm in May 2019 and January 2020 respectively. Swedish Match still believes in positive outcomes and has appealed the cases to the Administrative Court of Appeal. Based on management's interpretation of applicable tax regulations, expert advice taking into account the merits in our cases and developments in and distinctions to similar case rulings, no provision has been recognized for potential losses associated with these cases.

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 the first quarter 2020, an operating gain of 16 MSEK (11 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 for a period over the past 5 years. 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, which is expected sometime during 2020.

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
SALES FROM PRODUCT SEGMENTS	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).
OPERATING PROFIT/LOSS (EBIT) FROM PRODUCT SEGMENTS	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
OPERATING MARGIN FROM PRODUCT SEGMENTS (%)	$100 \times \text{Operating profit from product segments} \div \text{Sales from product segments}$	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).
LARGER ONE-TIME ITEMS	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.
EBITDA	Profit for the period excluding larger one-time items, net finance cost, income tax, depreciation, amortization and impairments of tangible and intangible 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.
EBITDA FROM PRODUCT SEGMENTS	Operating profit from product segments excluding depreciation, amortization and impairments of tangible and intangible 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.
EBITDA MARGIN (%)	$100 \times \text{EBITDA} \div \text{Sales}$	Used as an alternative measure of operating profitability.
EBITDA MARGIN FROM PRODUCT SEGMENTS (%)	$100 \times \text{EBITDA from product segments} \div \text{Sales from product segments}$	Used as an alternative measure of operating profitability for the core commercial businesses of Swedish Match.
PROFIT FOR THE PERIOD EXCLUDING LARGER ONE-TIME ITEMS	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.
EBITA	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.
EBITA INTEREST COVER	$\text{EBITA} \div (\text{Interest expense} - \text{interest income})$	Used as a measure of the ability to fund interest expenses.
NET DEBT	Current and non-current loans, adjusted for components of derivatives relating to these loans + net provisions for pensions and similar obligations + lease liabilities – cash and cash equivalents and other short-term investments	Used as a measure of net financial obligations.
NET DEBT/EBITA	$\text{Net debt} \div \text{EBITA}$	Used as an indication of the duration (in years) required to fund existing net financial obligations with free cash flows from the ongoing business.
ADJUSTED EARNINGS PER SHARE	$\text{Profit for the period excluding larger one-time items net of tax} \div \text{Average number of shares outstanding}$	Used as an alternative measure of earnings per share which is not affected by items which impact comparability between periods.

Larger one-time items

MSEK	January-March		Full year
	2020	2019	2019
Impairment charge – European chewing tobacco business	-	-	-367
Total larger one-time items in operating profit	-	-	-367

Net debt

MSEK	January-March		Full year
	2020	2019	2019
Non-current loans	15,175	13,396	12,130
Current loans	1,949	1,121	1,300
Components of derivatives (liabilities) ¹⁾	15	4	91
Components of derivatives (assets) ²⁾	-1,475	-958	-839
Non-current lease liabilities ³⁾	167	192	172
Current lease liabilities ⁴⁾	80	77	81
Net provision for pensions and similar obligations ³⁾	1,932	1,211	1,451
Net asset for pensions and similar receivables ⁵⁾	-79	-83	-91
Cash and cash equivalents	-5,779	-4,175	-2,370
Net debt	11,986	10,785	11,925

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

Consolidated income statement in summary

MSEK	Note	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19
Sales, including tobacco tax		4,846	4,877	4,685	4,591	4,069
Less tobacco tax		-816	-944	-856	-872	-811
Sales		4,029	3,933	3,829	3,719	3,258
Cost of goods sold		-1,429	-1,451	-1,340	-1,350	-1,234
Gross profit		2,600	2,482	2,489	2,369	2,023
Selling and administrative expenses		-1,009	-1,020	-904	-936	-834
Share of net profit/loss in associated companies		3	4	1	0	1
Impairment charge – European chewing tobacco business	5	-	-367	-	-	-
Operating profit		1,594	1,098	1,586	1,434	1,190
Finance income		30	25	23	28	24
Finance costs		-108	-83	-83	-87	-93
Net finance cost		-78	-59	-60	-60	-69
Profit before income tax		1,515	1,039	1,526	1,374	1,121
Income tax expense		-354	-283	-346	-294	-242
Profit for the period		1,161	756	1,180	1,080	880
<i>Attributable to:</i>						
Equity holders of the Parent		1,161	756	1,180	1,080	880
Non-controlling interests		0	0	0	0	0
Profit for the period		1,161	756	1,180	1,080	880

Quarterly data by product segment

Sales

MSEK	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19
Smokefree	2,508	2,475	2,315	2,261	1,863
Cigars	1,128	1,040	1,117	1,095	996
Lights	309	323	298	266	314
Sales from product segments	3,945	3,838	3,729	3,622	3,174
Other operations	84	95	100	98	84
Sales	4,029	3,933	3,829	3,719	3,258

Operating profit

MSEK	Note	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19
Smokefree		1,154	1,060	1,093	1,039	805
Cigars		431	359	423	411	384
Lights		67	100	88	6	43
Operating profit from product segments		1,652	1,520	1,603	1,456	1,233
Other operations		-58	-54	-18	-22	-43
Impairment charge – European chewing tobacco business	5	-	-367	-	-	-
Operating profit		1,594	1,098	1,586	1,434	1,190

Operating margin by product segment

Percent	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19
Smokefree	46.0	42.8	47.2	46.0	43.2
Cigars	38.2	34.5	37.9	37.5	38.6
Lights	21.7	31.1	29.4	2.3	13.8
Operating margin from product segments	41.9	39.6	43.0	40.2	38.8

EBITDA by product segment

MSEK	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19
Smokefree	1,252	1,159	1,185	1,124	885
Cigars	453	381	444	432	405
Lights	78	111	99	17	55
EBITDA from product segments	1,783	1,651	1,728	1,574	1,344

EBITDA margin by product segment

Percent	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19
Smokefree	49.9	46.8	51.2	49.7	47.5
Cigars	40.1	36.6	39.8	39.5	40.6
Lights	25.2	34.3	33.3	6.5	17.4
EBITDA margin from product segments	45.2	43.0	46.3	43.5	42.4

Additional quarterly data

Depreciation, amortization and impairments

MSEK	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19
Property, plant and equipment	105	108	101	95	89
Right-of-use assets	22	23	22	21	21
Intangible assets ¹⁾	21	19	16	16	16
Total	148	150	140	133	126

1) Excluding an 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	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19
Interest income	30	17	21	28	24
Interest expense	-87	-82	-82	-82	-90
Net interest expense	-57	-64	-60	-55	-66
Other finance costs, net	-21	6	0	-5	-3
Total net finance cost	-78	-59	-60	-60	-69

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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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